# NORWEGIAN ENERGY COMPANY ASA

ANNUAL REPORT

2015

**Norwegian Energy Company ASA**
Nedre Vollgate 1
0158 Oslo
Norway

www.noreco.com

2015

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# DIRECTOR'S REPORT

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## NORECO

Norwegian Energy Company ASA ("Noreco") is a Norwegian company quoted on the Oslo Stock Exchange. The company was originally established in 2005 focusing on exploration and production of hydrocarbon resources on the Norwegian, Danish and United Kingdom continental shelves.

Due to a number of unplanned events including technical issues at producing fields, reduced reserves, oil price development and lack of exploration success the company in late 2014 had to realise the lack of ability to service its debt and the company entered into a dialogue with its creditors.

In March 2015 a financial restructuring was agreed entailing a conversion of NOK 1 979 million of bond debt (including accrued interest) to equity with NOK 1 218 million of bond debt remaining on amended terms, including amended maturities, with possible payment-in-kind ("PIK") interests and no fixed amortisations except final maturity in three years, but with "cash sweep" if cash should become available. NOR06 changed borrower to Noreco Norway AS without any recourse to the parent company or other parts of the group. The remaining outstanding amounts of the three bond loans NOR10, NOR11 and NOR12 were combined into an amended NOK 600 million NOR10 bond loan. Following the conversion, the holders of the converted bonds owned 92 per cent of the outstanding shares of the company, while the existing shareholders owned 8 per cent of the outstanding shares.

The restructuring was completed on 24 March 2015, through the issuance of new shares and execution of amended bond agreements.

Post the financial restructuring a new board was elected on the 27th of March, in order to implement the new strategy. The new strategy entailed an exit from oil and gas activities, limiting all commitments, reducing costs and monetising remaining assets in order to repay bond debt and maximise value for shareholders.

Consequently, the company has during the year disposed of all of its oil and gas properties except for a small working interst in the Danish production licence Lulita.

## FINANCIAL POSITION AND SUMMERY OF COMPLETED FINANCIAL RESTRUCTURING

The execution of the new strategy and related disposals have resulted in the company finding itself in a net cash position for the first time since 2005

Specifically, the bondholder committee made it a condition for the restructuring approval that costs and cash flows related to Noreco's operations in Denmark had to be dramatically improved. Noreco was prevented from making payments for its share of production costs at the Nini and Cecilie fields and together with representatives from the bondholders initiated a dialogue with the operator and the licence partners. A settlement for defaulted cash calls as well as a capping the abandonment obligations  to the amount already posted into escrow (DKK 445 million adjusted for accrued interests on the escrow account) was reached at the end of second quarter and consisted of a cash consideration of NOK 60 million and the transfer of an 18.2 per cent working interest in the Lulita field.

Subsequently, the board announced a string of other transactions and events during the second half of 2015:

- On 30 June Noreco Norway entered into an agreement with CapeOmega to sell its 15 per cent participating interests in the Norwegian shelf licences PL274 and PL274 CS, which includes the Oselvar field with associated tax balances for a total consideration of NOK 201 million. The transaction was effective as of 1 January 2015. The transfer of licence interests was completed on 25 November 2015 following approvals from the Norwegian Authorities. The net proceeds (after pro & contra settlement adjustment since effective date) were transferred to the NOR06 proceeds account as defined in the loan agreement, and used to re-pay the NOR06 bondholders.

- On November 2, 2015 Noreco's UK subsidiary, Noreco Oil UK, received a notice of default under the Joint Operating Agreement (JOA) governing the Huntington licence. The sales process initiated by the new Board (with the assistance of Stellar Energy Advisors) has been terminated as no acceptable offers were received. Subsequently, on 11 January 2016 Noreco had received a formal notice from the Huntington licence partners, E.ON UK E&P Limited and Premier Oil Plc, that they would exercise their rights to acquire Noreco's participating interest in the Huntington. The total accounting loss for Noreco in the licence amounted to over NOK 580 million. At the time of reporting the licence has not been formally transferred, yet. However, Noreco is in dialogue with the acquiring partners and this process is expected to be finalised during Q2 2016.

- On 18 December 2015 Noreco announced that it had signed an agreement to enter into partnership with Awilhelmsen Special Opportunities AS and QVT Financial LP to pursue the Siri insurance claims, with the aim to maximise the proceeds from the claims, amounting to in excess of USD 400 million excluding interest. This agreement secured a minimum payment of USD 15 million to Noreco, thereby underpinning the financial situation of the company and secured the repayment of the remaining outstanding NOR 10 bonds. This partnership provides additional expertise, legal and financial capabilities in pursuing the Siri insurance claims. The partners are working intensively in the process leading up to a final court hearing that has been scheduled for September 2016.

- On 21 December 2015 Noreco Norway announced that it had entered into an agreement to transfer its 4.36% participating interest in the Enoch licence to CapeOmega AS.

- On 21 December 2015 Norwegian Energy Company ASA announced that its fully owned subsidiary Noreco Norway had entered into an agreement with Djerv Energi AS ('Djerv') for the sale of its exploration licence interests, organisation and management systems, respectively. On 3 February 2016 Noreco announced that it had failed to obtain the required approval for the transaction from bondholders in NOR06.

- Subsequently, on 2 March 2016, Noreco announced that its fully owned subsidiary Noreco Norway had entered into an agreement with Det norske oljeselskap ASA ('Detnor') for the sale of its remaining exploration licences, employees and a cash balance of approximately NOK 45 million, to be adjusted for working capital. The effective date of the transaction is 1 January 2016. Subject to completion, the proposed transaction, together with the Enoch transaction, will constitute a ceasing of all of Noreco Norway's petroleum activities.

- The transaction with Detnor was approved by NOR06 bondholders on 16 March 2016, though the completion of this transaction is still conditional upon approvals by the Ministry of Petroleum and Energy and the Ministry of Finance, respectively. The approvals are expected to be achieved shortly.

In line with above mentioned strategy excess cash has been used for the repayment of outstanding bond debt. Noreco has since the restructuring made the following payments:

**NOR10:**
On 13 August 2015 NOK 243 million of the principal amount of NOR10 was repaid together with interest of NOK 7 million.

On 6 September 2015 NOK 12 million in interest was settled in cash.

On 28 December 2015 Noreco announced the buy back of NOR10 bonds to a nominal amount of approximately NOK 200 million at a fixed price of 85% of par value. That amount was paid on 6 January 2016.

Outstanding principal amount after repayment in January 2016 will be NOK 156 million.

**NOR06:**
On 1 July 2015 Noreco reported of the sale of Oselvar and announced that the net proceeds (after pro & contra settlement adjustment since effective date) would be transferred to proceeds account and used to pay the NOR06 bondholders. The payment was made on 6 March 2016.

On 31 August the company announced that the interest payment due 6 September 2015 would be paid in kind by increasing par value.

The outstanding principal amount after repayment in March 2016 is NOK 482 million. A defined payment plan was approved in the bondholder meeting held on March 16th, 2016. An addendum and revision to the origianl NOR 06 agreement has subesquently been formalised.

Additionally, significant cost cutting measures have been implemented through the year. The G&A in the Group (excluding Noreco Norway) has been reduced from approximately NOK 60 million in 2015 to a run rate of less than 25% of this.

## FINANCIAL RESULTS FOR 2015

Due to the disposal of a significant part of the activities, the profit and loss section of the statements of comprehensive income have been re-presented to reflect discontinued operations on one line. Consequently, comments below will concentrate on the continued operations. Continuing operations consists of 10% interest in the Lulita license, bond debt, and retained obligations for asset retirement, insurance receivable and tax balances.

**Total revenues** for 2015 amounted to NOK 13 million, down from NOK 37 million the previous year (continued operations). The decrease is partly due to reduced ownership interest in Lulita.

**Production expenses** were NOK 6 million in 2015, compared to NOK 9 million in 2014. The decrease is due to reduced ownership interest in Lulita.

**Payroll expenses** were NOK 18 million in 2015, up by NOK 4 million compared to 2014 due to less internally invoiced hours to discontinued operations.

**Other operating expenses** amounted to NOK 8 million in 2015, compared to NOK 48 million last year mainly due to 2014 included non-recurring cost.

**Other (losses)/gains** were NOK 7 million in 2015, while the corresponding amount for 2014 was negative NOK 5 million.

The **net operating result** (EBIT) for 2015 was a loss of NOK 25 million, compared to a loss of NOK 43 million in 2014.

**Financial income** amounted to NOK 2 431 million in 2015, compared to NOK 158 million previous year. Financial income this year includes the initial gain of NOK 2 176 million, a direct accounting effect of the financial restructuring in March. For accounting purposes, the previous bond loans were derecognised, while the new equity and amended and restated bond loans were recognised at their fair values upon initial recognition.

**Financial expenses** were NOK 617 million in 2015, compared to NOK 775 million in 2014. Interest expenses on bond loans decreased from NOK 820 million in 2014 to NOK 91 million in 2015. The decrease was driven by the financial restructuring. Financial expenses include an effect of NOK 437 million due to accounting measures of bonds at fair value.

The company's **net result** for the year from continued operations amounted to a profit of NOK 1 792 million compared to a loss of NOK 606 million in 2014.

**Taxes** amounted to an income of NOK 2 million in 2015. This corresponds to an average tax rate of 0 percent. This is due to the profit generated mainly in companies with loss carry forward, where deferred tax assets had not previously been recognised, and hence a tax expense of zero. Noreco operates in three countries and thus under multiple tax regimes. The tax rate represents the weighted results from the different subsidiaries. The tax rate in 2015 is influenced by de-recognition of deferred tax assets in Denmark and the UK and pre-tax losses in UK and Noreco ASA with no tax impact since deferred tax assets were not recognised in these entities.

**Result from discontinued operations** amounted to a loss of NOK 1 126 million compared to a loss of NOK 2 306 million in 2014. Revenue was in 2015 NOK 431 million from discontinued operations. A decrease from NOK 1 106 million in 2014. The main reason for the decrease was due to lower realised oil prices and lower production due to discontinued interest in Nini and Cecilie. The result in 2014 was heavily influenced by write down of non-current assets of NOK 2 887 million whereas the write down in 2015 of non-current assets was NOK 420 million. Exploration cost amounted to NOK 593 million in 2015 compared to NOK 837 million in 2014.

**Net result** for the full year 2015 was a profit of NOK 665 million, compared to a loss of NOK 2 912 million last year.

Net cash flow from operations in 2015 amounted to NOK 485 million. Cash and cash equivalent excluding restricted cash of NOK 798 million was NOK 452 million at year end 2015, down from NOK 644 million at the end of 2014 excluding restricted cash of NOK 609 million. During the year the company has repaid debt of NOK 527 million.

Interest-bearing debt, excluding exploration loans, had a book value of NOK 832 million (principal amount NOK 994 million) on 31 December 2015, compared to NOK 3 051 million on 31 December 2014. The group's exploration loan amounted to NOK 110 million at the end of 2015, compared to NOK 284 million at the end of 2014. Total interest-bearing debt at year end 2015 had a book value of NOK 942 million (principal amount NOK 1 104 million).

## THE GOING CONCERN ASSUMPTION

Pursuant to the Norwegian Accounting Act section 3-3a, the board confirms that the requirements of the going concern assumption are met and that the annual accounts have been prepared on that basis. The financial solidity and the company's cash position are considered satisfactory in regards of the planned activity level for the next twelve months.

## FINANCIAL RISK

Noreco's most significant risk factors are related to tax, court ruling related to the insurance claim (see below), transaction risk and currency exchange rates. All of the company's bond debt has a fixed interest rate. More information on the management of financial risk can be found in the notes to the financial statements.

Due to damage on the Siri Platform in 2009 the company has filed an insurance claim in excess of NOK 3 billion, of which NOK 521 million was recognised as a non-current receivable at 31 December 2015. Based on technical documentation containing third party evaluations and the insurance agreements, the company remains firm that the booked claim is well covered. The USD amount recognised at 31 December 2015 is unchanged from 31 December 2014.

Noreco filed the writ to the Danish courts on 14 February 2014 and a final court hearing has been scheduled for September 2016.

## HEALTH, ENVIRONMENT AND SAFETY

Noreco puts emphasis on everyone performing company activities in line with good business integrity and with respect for people and the environment.

During 2015 Noreco was still involved in exploration and production of oil and gas which could cause emissions to the sea and air. Noreco's operations were in accordance with all regulatory requirements, and there were no breaches of these requirements in 2015

## PERSONNEL RESOURCES AND WORKING ENVIRONMENT

As a consequence of the new strategy, the Group has downsized the number of employees both in Norway and in Denmark considerably.

At the start of 2015 the group had 47 employees, and at the end of the year this number was reduced to 27. Three employees in resignation period are not included in these numbers.

The company's board of directors consists of one woman and two men, all elected by shareholders. There are no longer any employee representatives on the Board. At the end of 2015, 37 per cent of the employees were women compared to 40 per cent in 2014.

During 2015 the work environment committee was disbanded. The safety delegate role during 2015 was also occupied by a woman.

Noreco pays equal salaries and gives equal compensation for positions at the same level, regardless of gender, ethnicity, religion or disabilities

Sick leave in Noreco has increased compared to the earlier low figures and was 5.3 percent in 2015 versus 2.4 per cent in 2014.

The management's compensation is described in note 9 to the annual accounts.

## RESEARCH AND DEVELOPMENT

The company has during the year discontinued all research and development and going forward Noreco will have no activity within research and development.

## CORPORATE GOVERNANCE

The board wishes to maintain an appropriate standard on corporate governance and to fulfil the recommendations in the Norwegian Code of Practice for Corporate Governance.

Corporate governance in Noreco is based on equal treatment of all shareholders through the activity that the board and General Assembly practice. In total, 41 board meetings were held in 2015.

The activities of the board have been focused on promoting value preserving measures in the company's portfolio, strengthening the company's financial position and further developing the company strategy. Significant work was carried out by the board in 2015 in connection with the financial restructuring, in order to complete the restructuring as well as execute on the new strategy laid out by the new shareholders as a pre-condition for accepting the restructuring.

On 3 March 2015 an extraordinary general meeting was held to vote on a restructuring proposal, which involved a capital reduction, partial conversion of bond loans to equity and a reversed split of the shares. The general meeting approved all items on the agenda.

Following the successfully approved restructuring of Noreco, the board called for an extraordinary general meeting in March 2015 with the purpose of appointing a new board that could reflect the shareholder base following the conversion of bond debt as set out in the restructuring. The extraordinary general meeting was held on 27 March 2015. The following directors were elected: Silje Augustson (chair), Riulf Rustad (new member), Julien Balkany (new member) and Andreas Greve Isdahl (alternate member). Directors elected by and among company employees were not up for election, however employee representative Bård Lærum stepped down as the number of employee representatives was reduced to one.

On 20 May 2015 the Annual General Meeting for 2015 was held in Oslo. The meeting approved that the remuneration of the members of the Board for the period from the AGM in 2015 until the AGM in 2016 should remain at the present level, with the addition that each board member elected by the shareholders would enter into a consultancy agreement with a remuneration of NOK 2,000 per hour (ex VAT) with respect of work in addition to board meetings. Additionally it was approved that the three board members elected by shareholders should be compensated for a sale of certain assets in the range of NOK 500 000 to NOK 1 000 000. It was also approved that Riulf Rustad should receive 1 per cent of net insurance proceeds received by the Noreco's bondholders and/or shareholders.

On 30 June 2015 employee representative Lotte Kiørboe stepped down from the Board of Norwegian Energy Company ASA, following approval by the Norwegian Corporate Democracy Board of the company's application for termination of employee board representation at the parent company level. Following Kiørboe's resignation, the Board consisted of Silje Augustson (chair), Riulf Rustad (member), Julien Balkany (member) and Andreas Greve-Isdahl (alternate).

On 13 August 2015 Noreco announced that Odd Arne Slettebø, CFO of Noreco since November 2014, had handed in his resignation and that his employment would cease on 31 October 2015.

On 13 October 2015 Noreco announced that Tommy Sundt was stepping down as CEO of Noreco ASA. It was also announced that Riulf Rustad would intensify his efforts with the board and that the nomination committee planned to propose him as Chair at the next general meeting, whereas Silje Augustson would in her capacity as executive director take on the group CEO role and assume additional functions and responsibilities related to the daily operations of the group. With effect from this date Noreco announced that it would be led from Nedre Vollgate 1 in Oslo, while Noreco Norway AS would maintain its Stavanger presence. The board is aware of the non-compliance with Norwegian corporate code with regards to Silje Augustson's position on the board and as Group CEO. The board is working together with the nomination committee to make necessary amendments to the board composition and thereby ensuring that Silje Augustson can formally take the role as managing director of Norwegian Energy Company ASA. This will be formalised at the next AGM, the 26th May 2016.

On 21 January 2016 an Extraordinary General Meeting in Norwegian Energy Company ASA was held. Riulf Rustad was elected as new Chair of the Board. After this, the Company's Board have the following composition: Riulf Rustad (Chair); Silje Augustson (member); and Julien Balkany (member). Further, the meeting approved an option scheme, authorising the Board of Directors to grant options to buy or subscribe up to a total of 200 000 shares in the Company. The option were granted to Silje Augustson and Riulf Rustad, and the strike price was set at NOK 42 per share. The general meeting also passed a resolution authorising the Board of Directors to acquire treasury shares up to an aggregate nominal value of NOK 7,094,730. Additionally, the Board of Directors was authorised to increase the share capital with up to NOK 14,189,460. For more information please refer to note 34.

Further information on corporate governance and corporate social responsibility can be found on the company's web site, www.noreco.com

## OWNERSHIP

There are no restrictions on the transfer of shares in Noreco. The company currently has approximately 3 500 shareholders, and approximately 45 percent of the shares are held by Norwegian residents.

On 24 March 2015, the restructuring was executed and 652 715 195 new shares were issued by partial conversion of the NOR10, NOR11 and NOR12 bond loans. The new shares represented 92 % of all outstanding shares in the company. Following the share issue, the remaining outstanding amounts on the NOR11 bond loan and the convertible NOR12 bond loan were transferred to NOR10. Hence, after the completion of these transactions, Noreco has no convertible bond loans.

## NORWEGIAN ENERGY COMPANY ASA

In 2015, the parent company (NGAAP) was a pure holding company, and the operating expenses mainly consisted of shareholder costs and payroll expenses. Financial items amounted to an income of NOK 1 239 million in 2015, compared to an expense of NOK 3 299 million previous year. Financial income this year includes the initial gain of NOK 1 634 million, a direct accounting effect of the financial restructuring in March. For accounting purposes, the previous bond loans were derecognised, while the new equity and amended and restated bond loans were recognised. Write down of financial assets amounted to NOK 498 million in 2015 originating from the write down of the investments in and loans to Altinex AS and Noreco Norway AS. Write down in 2014 amounted to NOK 2 659 million.

Interest on bond loans was in 2015 NOK 58 million down from previous year due to the financial restructuring.

Net result for the year was a profit of NOK 1 239 million compared to a loss of NOK 3 330 in 2014. Equity at the end of 2015 amounted to NOK 521 million compared to a negative equity at the beginning of the year of NOK 984 million.

For comments on financial risk and market conditions and statement regarding going concern, please see other parts of this annual report. These comments are also valid for the parent company.

## ALLOCATIONS

The result for the year for Norwegian Energy Company ASA in 2015 was a gain of NOK 1 239 million. The board proposes the following allocations:

| | |
|---|---|
| Allocated to other equity | NOK 1 239 million |
| Covered by other paid-in capital | NOK 0 million |
| Covered by share premium | NOK 0 million |
| Total appropriation | NOK 1 239 million |

## OUTLOOK

After a year of intense work and a number of transactions announced, and referred to in the text above, Noreco is a transformed company. The Company is net debt free with a solid cash position and is in a strong position to pursue the insurance claim and to maximise remaining values in its subsidiaries in all three jurisdictions it operates. The board and management therefore remain fully focused on executing on this strategy.

*Approved by the board 30 April 2016*

**Riulf Rustad (Sign)**
*Chair of the board*

**Silje Augustson (Sign)**
*Board member &*
*Group CEO*

**Julien Balkany (Sign)**
*Board member*

# STATUTORY ACCOUNTS

## NORWEGIAN ENERGY COMPANY ASA (PARENT COMPANY)

# 2015

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STATUTORY ACCOUNTS FOR NORWEGIAN ENERGY COMPANY ASA

# INCOME STATEMENT

for the year ended 31 December

| NOK million | Note | 2015 | 2014 |
|---|---|---|---|
| Revenue | | | |
| **Total revenues** | | | |
| Personnel expenses | 11 | (13) | (14) |
| Other operating expenses | 14 | 6 | (42) |
| **Total operating expenses** | | **(7)** | **(55)** |
| **Net operating result (EBIT)** | | **(7)** | **(55)** |
| Interests received from group companies | | 79 | 104 |
| Gain on extinguishment of debt | 4 | 1 634 | - |
| Interest income | | 7 | 16 |
| Other financial income | | 164 | 89 |
| Write-down of financial assets | 12 | (498) | (2 659) |
| Interest expenses to group companies | | (9) | (19) |
| Interest expenses | | (58) | (820) |
| Other financial expenses | | (73) | (11) |
| **Net financial items** | | **1 246** | **(3 299)** |
| **Result before tax (EBT)** | | **1 239** | **(3 355)** |
| Income tax benefit / (expense) | 13 | - | 25 |
| **Net result for the year** | | **1 239** | **(3 330)** |
| **Appropriation:** | | | |
| Allocated to/(from) other equity | | 1 239 | (1 551) |
| Covered by other paid-in capital | | - | (771) |
| Covered by share premium | | - | (1 007) |
| **Total appropriation** | | **1 239** | **(3 330)** |

# BALANCE SHEET

on 31 December

| All figures in NOK million | Note | 31.12.15 | 31.12.14 |
|---|---|---|---|
| **Non-current assets** | | | |
| *Financial non-current assets* | | | |
| Investment in subsidiaries | 2 | - | 100 |
| Loan to group companies | | - | 282 |
| Restricted cash | 3 | 581 | 546 |
| **Total non-current assets** | | **581** | **927** |
| **Current assets** | | | |
| *Receivables* | | | |
| Receivables from group companies | | 77 | 671 |
| Other current receivables | | 1 | 6 |
| **Total current receivables** | | **78** | **677** |
| *Financial current assets* | | | |
| Bank deposits, cash and cash equivalents | | 274 | 617 |
| **Total financial current assets** | | **274** | **618** |
| **Total current assets** | | **352** | **1 295** |
| **Total assets** | | **933** | **2 223** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| *Paid-in equity* | | | |
| Share capital | 8,9 | 71 | 568 |
| Share premium | 8 | - | - |
| Other paid-in capital | 8 | - | - |
| **Total paid-in capital** | | **71** | **568** |
| *Retained earnings* | | | |
| Other equity | 8 | 450 | (1 551) |
| **Total retained earnings** | | **450** | **(1 551)** |
| **Total equity** | | **521** | **(984)** |
| **Liabilities** | | | |
| *Other non-current liabilities* | | | |
| Bond loan | 4 | 156 | - |
| **Total other non-current liabilities** | | **156** | **-** |
| **Current liabilities** | | | |
| Bond loan | 4 | 170 | 3 051 |
| Trade payables | | 1 | 7 |
| Public duties payable | | 0 | 0 |
| Debt to group companies | | 71 | 24 |
| Other current liabilities | 5 | 13 | 124 |
| **Total current liabilities** | | **255** | **3 207** |
| **Total liabilities** | | **411** | **3 207** |
| **Total equity and liabilities** | | **933** | **2 223** |

# CASH FLOW STATEMENT

for the year ended 31 December

| All figures in NOK million | Note | 2015 | 2014 |
|---|---|---|---|
| Net result for the period | | 1 239 | (3 361) |
| Income tax benefit | | | (25) |
| *Adjustments to reconcile net result before tax to net cash flows from operating activities:* | | | |
| Tax refunded | | | 1 |
| Depreciation and writedowns | | | 2 659 |
| Write-downs | 12 | 498 | - |
| Unrealised loss / (gain) related to financial instruments | | (2) | 4 |
| Gain on extinguishment of debt | 4 | (1 634) | - |
| Amortisation of borrowing costs incl. impact from change in amortisation plan | | - | 621 |
| Paid/received interests and borrowing cost - net | | - | 72 |
| Interests received | | 7 | 16 |
| Effect of changes in exchange rates | | (44) | - |
| *Changes in working capital* | | | |
| Changes in trade receivable | | - | - |
| Changes in trade payables | | (6) | 5 |
| Changes in other current balance sheet items | | 24 | 129 |
| **Net cash flow from operations** | | **82** | **120** |
| **Cash flows from financing activities** | | | |
| Issue of share capital | | | 105 |
| Paid issue cost | | | (12) |
| Repayment of bonds | 4 | (243) | (53) |
| Change in loans from group companies | | 46 | 17 |
| Change in loans to group companies | | (141) | 234 |
| Interest paid | | (18) | (88) |
| Paid transaction costs | | (70) | (35) |
| **Net cash flow from (used) in financing activities** | | **(426)** | **168** |
| **Net change in cash and cash equivalents** | | **(344)** | **288** |
| Cash and cash equivalents at the beginning of the period | | 617 | 329 |
| **Cash and cash equivalents at end of the quarter** | | **273** | **617** |

# 1 Accounting principles

Norwegian Energy Company ASA is a public limited company registered in Norway, with headquarters in Oslo (Nedre Vollgate 1, 0158 Oslo) The annual accounts for Norwegian Energy Company ASA (“Noreco” or “the company”) have been prepared in compliance with the Norwegian Accounting Act (“accounting act”) and accounting principles generally accepted in Norway (“NGAAP”) as of 31 December 2015.

Following the restructuring in March 2015, the company’s objective has been changed into monetizing the company’s assets with the aim to repay outstanding debt. Any surplus cash will be paid out to shareholders or invested in relevant activities.

The Company is listed on the Oslo Stock Exchange.

The financial statements for 2015 were approved by the Board of Directors on 30 April 2016.

**Going concern**
The board of directors confirms that the financial statements have been prepared under the presumption of going concern, and that this is the basis for the preparation of these financial statements. The financial solidity and the company’s cash position are now considered satisfactory in regards of the planned activity level for the next twelve months.

**Basis of preparation**
The financial statements are prepared on the historical cost basis with some exceptions, as detailed in the accounting policies set out below. The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding.

*Use of estimates*
The preparation of financial statements in compliance with the Accounting Act requires the use of estimates. The application of the company’s accounting principles also require management to apply judgment. Areas, which to a great extent contain such judgments, a high degree of complexity, or areas in which assumptions and estimates are significant for the financial statements, are described in the notes.

**Revenues**
Income from sale of services are recognised at fair value of the consideration, net after deduction of VAT. Services are recognised in proportion to the work performed.

**Classification of balance sheet items**
Assets intended for long term ownership or use have been classified as fixed assets. Receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply for liabilities. First year’s installment on long term liabilities and long term receivables are classified as current liabilities and assets.

For interest bearing debt where the company is required to be in compliance with financial covenants, the loans are classified as current liabilities if Noreco is in breach with the covenants to that extent that the loan would be payable on the demand of the creditor. As of year end 2015 Noreco is in compliance with covenants.

**Investments in subsidiaries**
For investments in subsidiaries, the cost method is applied. The cost price is increased when funds are added through capital increases or when group contributions are made to subsidiaries. Dividends received are initially taken as income. Dividends exceeding the portion of retained profit after the aquisition are reflected as a reduction in costprice. Dividend/group contribution from subsidiaries are reflected in the same year as the subsidiary makes a provision for the amount.

**Asset impairments**
Impairment tests are carried out if there is indication that the carrying amount of an asset exceeds the estimated recoverable amount. The test is performed on the lowest level of fixed assets at which independent cashflows can be identified. If the carrying amount is higher than both the fair value less cost to sell and recoverable amount (net present value of future use/ownership), the asset is written down to the highest of fair value less cost of disposal and the recoverable amount.

Previous impairment charges are reversed in later periods if the conditions causing the write-down are no longer present.

**Debtors**
Trade debtors are recognised in the balance sheet after provision for bad debts. The bad debt provision is made on basis of an individual assessment of each debtor and an additional provision is made for other debtors to cover expected losses. Significant financial problems at the customers, the likelihood that the customer will become bankrupt or experience financial restructuring and postponements and insufficient payments, are considered indicators that the debtors should be written down.

Other debtors, both current and long term, are recognised at the lower of nominal and net realisable value. Net realisable value is the present value of estimated future payments. When the effect of a writedown is insignificant for accounting purposes this is, however, not carried out. Provisions for bad debts are valued the same way as for trade debtors.

**Foreign currencies**
Assets and liabilities in foreign currencies are valued at the exchange rate on the balance sheet date. Exchange gains and losses relating to sales and purchases in foreign currencies are recognised as other financial income and other financial expenses.

**Derivatives**
Noreco enters into interest rate swap agreements to secure a fixed interest rate on the company’s loans with floating interest rate when considered necessary. The accounting rules for cash flow hedging are applied for these instruments. The derivatives are carried at fair value at the time of initial recognition, and recognised at fair value on each following reporting dates. The change in fair value is recognised in the equity as long as the hedge is effective. Ineffectiveness is recognised as other financial items in the income statement.

When a hedging instrument expires, or is sold, or no longer meets the criteria for hedge accounting, any gain or loss accumulated in equity at that time remains within equity and is recognised when the forecast transaction is ultimately recognised in the income statement. If a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within ‘other operating expenses’.

As of 31 December 2015 the major part of the company's bond debt have fixed interests rate. The company also has a swap agreement, which in 2015 is not accounted for as a hedging instrument, that expires in March 2016. See note 6 for details.

Recognised unrealised loss is classified as current liabilities, unrealised gain is classified as current receivables.

**Bonds and other debt to financial institutions**
The Company's bond debt was restructured in early part of 2015. See the consolidated financial statement note 24 for more information. Interest-bearing loans and borrowings are initially recognised at cost and subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs as well as discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised either in interest income and other financial items or in interest and other finance expenses within Net financial items. Financial liabilities are presented as current if the liabilities are due to be settled within 12 months after the balance sheet date, or if they are held for the purpose of being traded.

**Other liabilities**
Liabilities, with the exception of certain liability provisions, are recognised in the balance sheet at nominal amount.

**Taxes**
The tax in the income statement includes payable taxes for the period, refundable tax and changes in deferred tax. Deferred tax is calculated at relevant tax rates on the basis of the temporary differences which exist between accounting and tax values, and any carryforward losses for tax purposes at the year-end. Tax enhancing or tax reducing temporary differences, which are reversed or may be reversed in the same period, have been eliminated. Deferred tax and tax benefits which may be shown in the balance sheet are presented net. Deferred tax benefits on net tax reducing differences which have not been eliminated, and carryforward losses, is not presented in the balancesheet due to uncertainty about future earnings.

Tax reduction on group contributions given and tax on group contribution received, recorded as a reduction of cost price or taken directly to equity, are recorded directly against tax in the balance sheet (offset against payable taxes if the group contribution has affected payable taxes, and offset against deferred taxes if the group contribution has affected deferred taxes).

Deferred tax is reflected at nominal value.

**Cash flow statement**
The cash flow statement has been prepared according to the indirect method. Cash and cash equivalents include cash, bank deposits, and other short term investments which immediately and with minimal exchange risk can be converted into known cash amounts, with due date less than three months from purchase date.

# 2 Investments in subsidiaries

Investments in subsidiaries are booked according to the cost method.

(NOK million)

| Subsidiaries | Location | Ownership/voting right | Equity 31 December 2015 | Net Income 2015 | Book value |
|---|---|---|---|---|---|
| Altinex AS | Stavanger | 100 % | (27) | (127) | - |
| Norwegian Energy Company UK Ltd | Great Britain | 100 % | (123) | (57) | - |
| **Book value 31.12.15** | | | | | - |

# 3 Restricted bank deposits

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Restricted cash pledged as security for abandonment obligation in Denmark, DKK 445 million plus interest | 581 | 546 |
| **Total restricted bank deposits** | **581** | **546** |

# 4 Borrowings

## 4.1 Summary of borrowings

In October 2014, Noreco initiated a comprehensive financial restructuring due to a material decrease in the company's debt servicing ability. The adverse circumstances led to significant write-downs, which in turn led to a situation where the equity was lost by the end of 2014. On 15 December 2014 Noreco informed that it would not be able to make payments for bond loan interests that were due on 9 December 2014. As a consequence of the non-payment, all outstanding bond loans and the exploration loan facility, which carried cross default provisions, were defaulted on and the creditors had the right to call the entire principal amounts and accrued interests for payment.

Based on feedback from the financial stakeholders on the Board's first restructuring proposal, a revised restructuring proposal entailed that Noreco would be converting bond debt to equity with NOK 600 million of bond debt remaining on amended terms for Noreco ASA.
The financial restructuring was completed on 24 March 2015. The bond has a final maturity date in March 2018. The loan holds a fixed interest rate of 6,5 % with semi annually payments only if available cash on the proceeds account (and subject always to the company having a lawful level of equity), otherwise payment-in-kind (PIK).

In late 2015 it was announced that Noreco offered to buy-back NOR10 bonds at 85% of par value. In late December 2015 it was confirmed that a buy back of a principal amount of approximately NOK 200 million of NOR10 bonds at the fixed price of 85% of par value was to take place. The buy-back will take place in the first part of 2016. Since the buy-back is at 85% of par, a financial gain is recorded as the difference between par value and the buy-back value. Following the buy-back the principal amout will be approximately NOK 156 million. The buy-back amount is recorded as a current debt since the buy-back payment will take place in early part of January 2016.

For more information please see the consolidated financial statement for Noreco, note 24

| (NOK million) | 2015 | 2014 |
|---|---|---|
| NOR10 bond loan, amended and restated | 156 | |
| **Total** | **156** | **-** |
| **Current debt** | **2015** | **2014** |
| Bond loan NOR06 | | 588 |
| Bond loan NOR10 | | 1 372 |
| Bond Loan NOR11 | | 722 |
| Bond Loan NOR12 Convertible | | 369 |
| Amended and restated NOR10 | 170 | |
| **Total** [1] | **170** | **3 051** |
| **Total borrowings** | **327** | **3 051** |

## 4.2 Covenants

**Covenants relating to interest bearing debt outstanding on 31 December 2015 and 31 December 2014**
All the outstanding bonds at 31 December 2015 were subject to the same covenants. The covenants were in line with what is considered customary in the Norwegian high yield bond market. A general liquidity requirement in the amount of NOK 100 million at Noreco group level applied, as well as incurrence based covenants on significant asset disposals and new financial indebtedness, which were only permitted if the Group gearing ratio (net interest-bearing debt to EBITDAX, with the X only relating to exploration activity on the Norwegian continental shelf) was less than 3.5 x.

Customary events of default exist for the exploration loan, including material adverse change, and in addition if the borrower fails to claim refund that it is entitled to under the Petroleum Tax Act relating to exploration costs financed under the agreement. For more information please refer to the consolidated financial statement note 24.

As of year end 2015 Noreco is in compliance.

## 4.3 Payment structure

The outstanding bond loans were defaulted on as of 31 December 2014. The creditors therefore had the right to call the entire principal amounts and accrued interests for payment. All oustanding bond loans were reclassified to current liabilities as of 31 December 2014. The approved restructuring in March 2015 entailed that Noreco would be converting parts of the bond debt to equity and with bond debt remaining an amended terms. The amended bonds have provisions for possible payment-in-kind interest and no fixed amortisations except for final maturity in 2018, but with 'cash sweeps' if cash should become available. See note 24 in the consolidated financial statement for additional information.

## 4.4 Assets pledged as security for interest bearing debt

Specification of assets pledged as security as at 31 December:

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Collateralised debt (book value)** | | |
| Bond loans | 357 | 2 682 |
| Total collateralised debt (book value) | 357 | 2 682 |
| | | |
| **Capitalised value in the consolidated accounts of assets pledged as securities** | | |
| Shares in subsidiaries | (0) | 100 |
| Total capitalised value | -0 | 100 |

The Bond loan NOR10 is secured with pledge in a licence owned by Noreco Oil Denmark AS and Noreco Petroleum Denmark AS (both companies are subsidiaries of Altinex AS). Further the bond is secured with pledge in the earnings accounts relating to Noreco Oil Denmark AS, Noreco Petroleum Denmark AS and Noreco Oil (UK) Ltd. (all companies are subsidiaries of Altinex AS) In addition to guarantees, intra group loans held by the three above mentioned companies and the shares in Noreco Oil Denmark AS, Noreco Oil (UK) Ltd and Noreco Petroleum Denmark AS. Book value of the shares in Noreco Oil Denmark A/S is currently booked at USD 0 million, Noreco Oil (UK) Ltd is currently booked at USD 0 million, and in Noreco Petroleum Denmark AS is currently booked at USD 0 million. The securities in the amended and restated NOR10 is at the same terms as the old bond.

## 5 Current liabilities

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Derivates (ref. note 6) | 1 | 3 |
| Accrued interest | 3 | 113 |
| Salary accruals | 0 | 0 |
| Other current liabilities | 9 | 8 |
| **Total other current liabilities** | **13** | **124** |

# 6 Derivates

On 31 December 2015, the company holds the following interest rate swap agreements:

(NOK million)

| Derivatives held for trading | Notional principal | Receive | Pay | Maturity | Fair value 31.12.2015 |
|---|---|---|---|---|---|
| Interest rate swap | 325 NOK | 3M NIBOR | 2,58 % | 27.04.16 | (1) |
| **Total book value** | | | | | **(1)** |

On 31 December 2014, the Group had the following interest rate swap:

| Derivatives held for trading | Notional principal | Receive | Pay | Maturity | Fair value 31.12.2014 |
|---|---|---|---|---|---|
| Interest rate swap | 325 NOK | 3M NIBOR | 2,58 % | 27.04.16 | (3) |
| **Total book value** | | | | | **(3)** |

The fair value of interest swap agreements is based on the market's expectations for future interests

# 7 Guarantees

**Overview of issued guarantees on 31 December 2015**

The parent company of the Group Norwegian Energy Company ASA ("Noreco") has issued a parent company guarantee on behalf of its subsidiary Norwegian Energy Company UK Ltd and Noreco Oil (UK) Limited. Noreco guarantees that, if any sums become payable by Norwegian Energy Company UK Ltd or by Noreco Oil (UK) Limited to the UK Secretary of State under the terms of the license and the company does not repay those sums on first demand, Noreco shall pay to the UK Secretary of State on demand an amount equal to all such sums.

On 6 December 2007, Noreco issued a parent company guarantee to the Danish Ministry of Climate, Energy and Building on behalf of its subsidiary Noreco Oil Denmark A/S and Noreco Petroleum Denmark A/S. It is still in existence but only now relevant insofar as participation in Lulita is concerned

On 31 December 2012, Norwegian Energy Company ASA issued a parent company guarantee to the Norwegian state on behalf of its subsidiary Noreco Norway AS. Noreco guarantees that, if any sums become payable by Noreco Norway AS to the Norwegian State under the terms of the licenses and the company does not repay those sums on first demand, Norwegian Energy Company ASA shall pay to the Norwegian state on demand an amount equal to all such sums.

On 19 March 2013, the Norwegian Energy Company ASA issued a parent company guarantee in connection with establishment of a NOK 1,240 million exploration loan facility in Sparebank 1 - SR Bank. The debtor under the exploration loan is Noreco Norway AS.

On 6 December 2013, several subsidiaries in the Noreco group entered into Co-debtor guarantees related to the refinancing of outstanding bonds at that time. These are unconditional and irrevocable Norwegian law on-demand guarantee from the Guarantors securing the Obligor's obligations when they have become due under the Bond Agreement and any other Finance Document, including interest, cost and expenses, with payment by the Guarantor to be made within 10 Business Days of any demand, such Guarantees to be qualified as required by Danish law with respect to any Danish Guarantor. As part of the restructuring in March 2015, whereby the bond issues NOR10, NOR11 and NOR12 were, inter alia, restructured into the NOR10 bond issue, guarantees from Noreco Oil Denmark A/S, Noreco Petroleum Denmark A/S and Noreco Oil (UK) Ltd were continued as guarantees for the NOR10 bond issue.

# 8 Shareholders' equity

| Changes in equity | Share capital | Share premium | Other paid-in equity | Other equity | Total |
|---|---|---|---|---|---|
| Equity 31 December 2014 | 568 | | | (1 551) | (984) |
| Capital reduction | (562) | | | 562 | |
| Proceeds from share issued | 65 | | | 189 | 255 |
| Options cost | | | | 11 | 11 |
| Appropriation of loss for the year | | | | 1 239 | 1 239 |
| **Equity 31 December 2015** | **71** | | | **450** | **521** |

# 9 Share capital and shareholder information

| | 2015 | 2014 |
|---|---|---|
| Ordinary shares | 7 094 730 | 56 757 843 |
| **Total shares** | **7 094 730** | **56 757 843** |
| Par value (NOK 1) | 10,00 | 0,10 |

The Group does not own any of its parent company shares. All shares have equal rights.

**Changes in number of shares and share capital:**

| (NOK million) | No. Of shares | Share Capital |
|---|---|---|
| Share capital on 1 January 2014 | 4 656 094 082 | 466 |
| Share issue (repair) on 21 January 2014 | 1 000 000 000 | 100 |
| Share issue employees on 14 February 2014 | 2 391 002 | 0 |
| Share issue for reverse split on 17 September 2014 | 16 | 0 |
| Reverse split 17 September 2014 | (5 601 900 249) | |
| Share issue through partial conversion of bond on 22 October 2014 | 172 992 | 2 |
| **Share capital on 31 December 2014** | **56 757 843** | **568** |

| (NOK million) | No. Of shares | Share Capital |
|---|---|---|
| Share capital on 1 January 2015 | 56 757 843 | 568 |
| Share capital reduction 3 March 2015 | | (562) |
| Share issue 23 March 2015 | 652 715 195 | 65 |
| Reverse split (amalgamation) on 13 May 2015, 1:100 | (702 378 308) | |
| **Share capital on 31 December 2015** | **7 094 730** | **71** |

**Changes in 2015**
On 3 March 2015 Noreco carried out a share capital reduction by a reduction in the nominal value of the ordinary shares from NOK 10 to NOK 0.10. The amount of the reduction was applied to cover losses which could not be covered otherwise. On the 23 March, Noreco issued 652 715 195 new shares, which were settled by conversion of bond debt. In addition, a reverse split of the company's shares in the ratio 100:1 was carried out on 13 May 2015. By completion of the reverse split, the company's share capital was NOK 70 947 303.8 divided on 7 094 730 ordinary shares, each with a nominal value NOK 10.

**Existing mandates**
The Board of Directors was in 2014 granted a mandate by the General Meeting to increase the share capital by a total amont of up to NOK 16 million by one or more share issues in relation to employee incentive schemes existing at any time for employees in the group. Following the reverse split that was completed in Q3 2014, the limit was reduced to NOK 160 000. After the reverse split performed in April 2015, the limit is NOK 1 600. The mandate expires on 1 June 2016. The mandate has not been utilised.

The above-mentioned mandate replaced all previously granted mandates relating to the issuing of shares.

**Overview of shareholders at 8 April 2016:**

| Name | Shareholding | Ownership share | Voting share |
|---|---|---|---|
| Goldman Sachs & Co E GOLDMAN SACHS & CO - | 965 863 | 0 | 13.61 % |
| SPARINVEST SICAV-SIF C/O Deutsche Bank AG | 461 461 | 0 | 6.50 % |
| STATE STREET BANK & S/A SSB CLIENT OMNI | 310 724 | 0 | 4.38 % |
| SPARINV: HIGH YI VAL BNY MELLON SA/NV | 294 565 | 0 | 4.15 % |
| Goldman Sachs Intern SECURITY CLIENT SEGR | 260 871 | 0 | 3.68 % |
| NORTH ENERGY ASA | 250 000 | 0 | 3.52 % |
| Morgan Stanley & Co. MS & CO INTL PLC MSI | 167 217 | 0 | 2.36 % |
| OUSDAL AS | 157 975 | 0 | 2.23 % |
| JPMORGAN CLEARING CO A/C CLEARING ACCOUNT | 136 068 | 0 | 1.92 % |
| MP PENSJON PK | 121 533 | 0 | 1.71 % |
| HANASAND EINAR MIKAL | 114 888 | 0 | 1.62 % |
| ANKO INVEST AS | 110 645 | 0 | 1.56 % |
| ØSTLANDSKE PENSJONIS | 102 139 | 0 | 1.44 % |
| LEIKVOLLBAKKEN AS | 100 007 | 0 | 1.41 % |
| NORDNET BANK AB | 96 020 | 0 | 1.35 % |
| CLEARSTREAM BANKING | 87 992 | 0 | 1.24 % |
| DANSKE BANK 3993 NORDIC SETTLEME | 81 371 | 0 | 1.15 % |
| NORDNET LIVSFORSIKRI | 76 154 | 0 | 1.07 % |
| TOPDANMARK LIVSFORSI BNY MELLON SA/NV | 69 501 | 0 | 0.98 % |
| **Total** | **4 208 446** | **59.3 %** | **59.3 %** |
| **Other owners (ownership <0,67%)** | **2 886 284** | **40.7 %** | **40.7 %** |
| **Total number of shares at 8 April 2016** | **7 094 730** | **100 %** | **100 %** |

# 10 Share-based compensation

The Group established an option program in January 2008. The purpose of the program was to establish a long-term incentive program for employees. During 2015 the options program was discontiuned in Noreco Norway for the Norwegian employees due to the possible deal with Djerv. All remaining options for the employees in Norway were cancelled and the remaining cost booked in Q4 2015. The options issued to Danish employees remain open active until future expiry dates.

Fair value of the option is calculated by external advisors using the Black and Scholes Merton option pricing model. Inputs to the option pricing model is for instance grant date, exercise price, expected exercise date, volatility and risk free rate.

**Outstanding share options and bonus shares**

| | |
|---|---|
| Total share options and bonus shares outstanding as at 1 January 2014 | 12 805 387 |
| Share options granted in 2014 | 157 221 829 |
| Bonus shares granted in 2014 | 2 391 002 |
| Adjustment of options/bonus shares due to reverse split 29 September 2014 | (153 103 806) |
| Share options forfeited in 2014 | (17 619 926) |
| Bonus shares forfeited in 2014 | (241 930) |
| **Outstanding at 31 December 2014** | **1 452 556** |
| Share options granted in 2015 | |
| Bonus shares granted in 2015 | |
| Adjustment of options/bonus shares due to reverse split 15 May 2015 | (1 438 030) |
| Share options and bonus shares forfeited by employees due to the discontinuation of the options program | 13 508 |
| **Outstanding at 31 December 2015** | **1 018** |

| Grants | Exercise price | Outstanding share options and bonus shares at 31.12.2015 | Average remaining Contractual term | Weighted average exercise price |
|---|---|---|---|---|
| Share options programme 2013 | 41 100 | 40 | 2,18 | 41 100 |
| Share options programme 2014 | 1 600 | 978 | 3,32 | 1 600 |
| **Total** | | **1 018** | **3** | **3 152** |

# 11 Payroll expenses, number of employees, remunerations, etc

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Salaries (director's fees) | (2) | (2) |
| Social security tax | (0) | (0) |
| Salaries from group companies | (11) | (11) |
| Other personnel expenses | | |
| **Total personnel expenses** | **(13)** | **(14)** |
| Average number of man-years | 0 | 0 |

See note 9 in the group annual report for further information on compensation to key management and board of directors etc.

# 12 Writedown of financial assets

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Writedown investments in subsidiaries | (112) | (2 602) |
| Writedown loans to subsidiaries | (386) | (56) |
| **Total writedown of financial assets** | **(498)** | **(2 659)** |

Following impairment tests as at 31.12.2015 the investment in Altinex AS and Noreco Norway AS has been written off. In addition the loans issued to group companies are written off. The reason is the financial state of the subsidiaries as a result of the developments in the group, ref. note 4 and the directors report in the consolidated annual report.

# 13 Tax

**Income tax:**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Tax refundable | | |
| Changes in deferred tax liability | | 24 |
| Changes in deferred tax asset | | |
| Changes in deferred tax asset - not recognised | | |
| Changes regarding previous years | | 1 |
| Effect of change in tax rate | | |
| Income tax expense (benefit) | - | 25 |

**Reconciliation of nominal to actual tax rate:**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Result before tax | 1 239 | (3 355) |
| Corporation income tax of income (loss) before tax - 27% | 335 | (906) |
| Additional income tax of income (loss) before tax | | |
| Sum calculated tax expense | 335 | (906) |
| Permanent differences | (342) | 694 |
| Changes in deferred tax asset - not recognised | (7) | 189 |
| Changes in tax rate | 14 | (1) |
| **Income tax benefit** | **(0)** | **(25)** |

**Deferred tax liability and deferred tax assets:**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Net operating loss deductible | 676 | 640 |
| Fixed assets | | |
| Current assets | 99 | 56 |
| Liabilities | (52) | 3 |
| Tax base deferred tax liability / deferred tax asset | 723 | 699 |
| Net deferred tax liability / (deferred tax asset) (25%/27%) | (181) | (189) |
| Unrecognised deferred tax asset | 181 | 189 |
| Deferred tax liability / (deferred tax asset) recognised | | |

# 14 Other operating expenses and audit fees

| | | |
|---|---|---|
| IT expenses | (0) | - |
| Travel expenses | (0) | (0) |
| General and administrative costs | (0) | (0) |
| Consultant fees [1] | 7 | (34) |
| Other operating expenses | (3) | (3) |
| Loss on discontinued hedge | 2 | (5) |
| **Total other operating expenses** | **6** | **(42)** |

1) Consultant fees in 2015 include fees relating to the restructuring efforts recorded in 2014, which have been reclassified and included in the calculation of bond debt restructuring impact.

| Expensed audit fee<br>(NOK million) | 2015 | 2014 |
|---|---|---|
| Statutory audit (incl. technical assistance with financial statements) | (1) | (2) |
| Other assurance services | (0) | (0) |
| Other assistance | (0) | 1 |
| **Total audit fees** | **(1)** | **(2)** |

VAT is not included in the audit fee

# 15 Related party transactions

| Transactions with group companies<br>(NOK million) | 2015 | 2014 |
|---|---|---|
| a) Sales of services | - | - |
| b) Purchases of services | 11 | 11 |
| c) Sale of assets | - | - |

Interest income and interest expenses to group companies are presented separately in the income statement

Services are charged between group companies at an hourly rate which corresponds to similar rates between independent parties. The revenue is registered as a cost reduction since operationally it is considered cost sharing.

**Balances with group companies**
Balances with group companies are stated on the face of the balance sheet and are all related to 100 percent controlled subsidiaries.

# CONSOLIDATED STATEMENTS

# STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED
for the year ended 31 December

| NOK million | Note | 2015 | Re-presented* 2014 |
|---|---|---|---|
| **Continued operation** | | | |
| **Revenue** | **6,7** | **13** | **37** |
| Production expenses | 8 | (6) | (9) |
| Exploration and evaluation expenses | 9,29 | - | - |
| Payroll expenses | 10,23,27 | (18) | (14) |
| Other operating expenses | 11 | (8) | (48) |
| Other (losses)/ gains | 12 | 7 | (5) |
| **Total operating expenses** | | **(25)** | **(75)** |
| **Operating results before depreciation and write-downs** | | **(12)** | **(38)** |
| Depreciation | 14,33 | (2) | (6) |
| Write-downs and reversal of write-downs | 13,14 | (11) | 1 |
| **Net operating result** | | **(25)** | **(43)** |
| Financial income | 15 | 2 431 | 252 |
| Financial expenses | 15 | (617) | (870) |
| **Net financial items** | | **1 814** | **(617)** |
| **Result before tax** | | **1 789** | **(660)** |
| Income tax benefit | 16 | 2 | 54 |
| **Net result for the year continued operation** | | **1 792** | **(606)** |
| **Discontinued operation** | | | |
| Profit (loss) from discontinued operation (net of income tax) | 5 | (1 126) | (2 306) |
| **Net result for the period** | | **665** | **(2 912)** |
| **Other comprehensive income (net of tax):** | | | |
| *Items not to be reclassified to profit or loss in subsequent periods* | | | |
| *Total* | | - | - |
| *Items to be reclassified to profit or loss in subsequent periods* | | | |
| Reclassification of currency translation adjustment upon disposal of subsidiary | | - | (28) |
| Currency translation adjustment | | 16 | 278 |
| *Total* | | *16* | *249* |
| **Total other comprehensive result for the year (net of tax)** | | **16** | **249** |
| **Total comprehensive result for the year (net of tax)** | | **681** | **(2 663)** |
| Earnings per share (NOK 1) | | | |
| Basic | 17 | 118 | (5 196) |
| Diluted | 17 | 118 | (5 196) |
| Earnings per share continuing operation (NOK 1) | | | |
| Basic | | 318 | (1 081) |
| Diluted | | 317 | (1 081) |

*) re-presented for discontinued operations
*Note 1 to 34 are an integral part of these consolidated financial statements*

# STATEMENT OF FINANCIAL POSITION

CONSOLIDATED
as of 31 December

| NOK million | Note | 31.12.2015 | Re-presented* 31.12.2014 |
|---|---|---|---|
| **Non-current assets** | | | |
| Licence and capitalised exploration expenditures | 13,30 | (0) | 325 |
| Goodwill | 13 | (0) | 23 |
| Deferred tax assets | 16 | 351 | 633 |
| Property, plant and equipment | 13,30 | 2 | 428 |
| Restricted cash | 19,21 | 620 | 576 |
| Receivables | 31 | 521 | 440 |
| **Total non-current assets** | | **1 494** | **2 425** |
| **Current assets** | | | |
| Assets held for sale | 27 | 12 | - |
| Tax refund | 16 | 119 | 315 |
| Derivatives | 20,21 | - | 28 |
| Trade receivables and other current assets | 18,21 | 21 | 189 |
| Restricted cash | 19,21 | 178 | 33 |
| Bank deposits, cash and cash equivalents | 19,21 | 452 | 644 |
| **Total current assets** | | **783** | **1 209** |
| **Total assets** | | **2 277** | **3 634** |
| **Equity** | | | |
| Share capital | 22 | 71 | 568 |
| Other equity | 22,28 | 73 | (1 371) |
| **Total equity** | | **144** | **(803)** |
| **Non-current liabilities** | | | |
| Deferred tax | 16 | 47 | 0 |
| Asset retirement obligations | 24 | 837 | 612 |
| Bond loan | 21,25,29 | 501 | - |
| **Total non-current liabilities** | | **1 385** | **612** |
| **Current liabilities** | | | |
| Liabilities held for sale | 27 | 107 | - |
| Bond loan | 21,25,29 | 331 | 3 051 |
| Other interest bearing debt | 21,25,29 | 110 | 284 |
| Derivatives | 20,21 | 1 | 3 |
| Tax payable | 16 | 37 | 28 |
| Trade payables and other current liabilities | 21,26 | 162 | 458 |
| **Total current liabilities** | | **748** | **3 825** |
| **Total liabilities** | | **2 133** | **4 437** |
| **Total equity and liabilities** | | **2 277** | **3 634** |

*) re-presented for discontinued operations
*Note 1 to 34 are an integral part of these consolidated financial statements*

*Oslo, 30 April 2016*

**Riulf Rustad (Sign)**
*Chair of the board*

**Silje Augustson (Sign)**
*Board member*
*Group CEO*

**Julien Balkany (Sign)**
*Board member*

# STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED

| NOK million | Note | Share capital | Currency translation fund | Other equity | Total equity |
|---|---|---|---|---|---|
| **Equity at 01.01.2014** | | **466** | **200** | **1 084** | **1 750** |
| Net result for 2014 | | | | (2 912) | (2 912) |
| **Comprehensive income/(loss) for the period (net of tax)** | | | | | |
| Currency translation adjustments | | - | 278 | - | 278 |
| Reclassification of currency translation adjustment upon disposal of subsidiary | | | (28) | | (28) |
| **Total comprehensive income(loss) for 2014** | | | **249** | **(2 911)** | **(2 662)** |
| **Transactions with owners** | | | | | |
| Proceeds from share issued | 22 | 102 | - | 3 | 105 |
| Issue cost | | - | - | (4) | (4) |
| Share-based incentive program | 28 | - | - | 7 | 7 |
| **Total transactions with owners for the period** | | **102** | **-** | **7** | **109** |
| **Equity at 31.12.2014** | | **568** | **449** | **(1 820)** | **(803)** |
| **Equity at 01.01.2015** | | **568** | **449** | **(1 820)** | **(803)** |
| Net result for 2015 | | | | 665 | 665 |
| **Other comprehensive income/(loss) for the period (net of tax)** | | | | | |
| Currency translation adjustments | - | | 16 | - | 16 |
| **Total comprehensive income(loss) for 2015** | **-** | | **16** | **665** | **681** |
| **Transactions with owners** | | | | | |
| Proceeds from share issued | 22 | 65 | - | 189 | 255 |
| Capital reduction | 22 | (562) | - | 562 | - |
| Share-based incentive program | 28 | | - | 11 | 11 |
| **Total transactions with owners for the period** | | **(497)** | **-** | **763** | **266** |
| **Equity at 31.12.2015** | | **71** | **465** | **(392)** | **144** |

*Note 1 to 34 are an integral part of these consolidated financial statements*

# STATEMENT OF CASH FLOWS

CONSOLIDATED
for the year ended 31 December

| NOK million | Note | 2015 | 2014 |
|---|---|---|---|
| Net result for the period | | 665 | (2 912) |
| Income tax benefit | 16 | | (1 609) |
| *Adjustments to reconcile net result before tax to net cash flows from operating activities:* | | | |
| Tax refunded | 16 | 315 | 378 |
| Depreciation | 14 | 72 | 407 |
| Write-downs and reversal of write-downs | 13,14 | 431 | 2 885 |
| Expensed exploration expenditures previously capitalised | 13 | 505 | 758 |
| Share-based payments expenses | 28 | 11 | 7 |
| (Gain) / loss on sale of licences | 12 | 106 | - |
| Change in fair value of bonds | 23 | 379 | - |
| Unrealised loss / (gain) related to financial instruments | | 26 | (28) |
| Gain on extinguishment of debt | 15,25 | (2 176) | |
| Paid/received interests and borrowing cost - net | | 0 | 115 |
| Interests received | | 12 | - |
| Effect of changes in exchange rates (net foreign exchange loss) | 15 | (88) | (91) |
| Amortisation of borrowing costs | 15 | - | 633 |
| Accreation expense related to asset retirement obligations | 24 | 38 | 34 |
| Reclassification of currency translation adjustment upon disposal of subsidiary | | - | (28) |
| *Changes in working capital* | | | |
| Changes in trade receivable | | 84 | 20 |
| Changes in trade payables | | (14) | 3 |
| Changes in other current balance sheet items | | 20 | 156 |
| **Net cash flow from operations** | | **386** | **730** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of fixed assets | 5 | 184 | - |
| Purchase of tangible assets | 13 | 5 | (12) |
| Compensation according to settlement agreement | | (60) | |
| Purchase of intangible assets | 12 | (185) | (307) |
| **Net cash flow used in investment activities** | | **(56)** | **(319)** |
| **Cash flows from financing activities** | | | |
| Issue of share capital | | - | 105 |
| Paid issue cost | | - | (12) |
| Proceeds from utilisation of exploration facility | 24 | 110 | 291 |
| Repayment of bonds | | (243) | (53) |
| Repayment of exploration facility | 24 | (284) | (352) |
| Paid transaction costss | 15 | (70) | (35) |
| Interest paid | | (35) | (115) |
| **Net cash flow from (used) in financing activities** | | **(522)** | **(170)** |
| **Net change in cash and cash equivalents** | | **(192)** | **241** |
| Cash and cash equivalents at the beginning of the year | 18 | 644 | 403 |
| **Cash and cash equivalents at end of the year** | **18** | **452** | **644** |

*Note 1 to 34 are an integral part of these consolidated financial statements*

8

16

32

# NOTES

# NOTES

# 1 General information

Norwegian Energy Company ASA ("Noreco", "the Company" or "the Group") is a public limited company registered in Norway, with headquarters in Oslo (Nedre Vollgate 1, 0158 Oslo). The Company has subsidiaries in Norway, Denmark and the United Kingdom. Following the restructuring in March 2015, the company's objective has been changed into monetizing the company's assets with the aim to repay outstanding debt. Any surplus cash will be paid out to shareholders or invested in relevant activities. The Company is listed on the Oslo Stock Exchange.

The consolidated financial statements for 2015 were approved by the Board of Directors on 30 April 2016 and will be presented for approval at the Annual General Meeting on 26 May 2016.

# 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Group also provides the disclosure requirements as specified under the Norwegian Accounting Law (Regnskapsloven).

## 2.1 Basis of preparation

The consolidated financial statements of Norwegian Energy Company ASA (Noreco ASA) have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations from the IFRS interpretation committee (IFRIC), as endorsed by the EU. The Group does also provide information which is obligated in accordance with the Norwegian Accounting Act and associated N-GAAP standards.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

In accordance with the Norwegian Accounting Act, section 3-3a, the Board of Directors confirms that the consolidated financial statements have been prepared under the assumption of going concern and that this is the basis for the preparation of the financial statements. The financial solidity and the Company's cash position at 31 December 2015 was considered satisfactory in regards of the planned activity level in 2016

The Board of Directors is of the opinion that the consolidated financial statements give a true and fair view of the Company's assets, debt, financial position and financial results. The Board of Directors is not aware of any factors that materially affect the assessment of the Company's position as of 31 December 2015, besides what is disclosed in the Director's report and the financial statements.

The subtotals and totals in some of the tables may not equal the sum of the amounts shown due to rounding.

### 2.1.1 Changes in accounting policies and disclosures

**a) New and amended standards adopted by the Group**
The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

*Defined Benefit Plans: Employee Contributions (amendments to IAS 19)*
Amendment provides clarifications regarding accounting for contributions from employees or third parties when accounting for defined benefit plans. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans.

**b) New standards and interpretations not yet adopted**
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements.

*IFRS 9 Financial instruments*

IFRS 9 Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is yet to assess IFRS 9's full impact.

*IFRS 15 Revenue from contracts with customers*

IFRS 15 Revenue from contracts with customers' deals with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.Based on a preliminary assessment IFRS 15 is not expected to have a material effect on the Group.

*IFRS 16 Leases*

IFRS 16 Leases, issued in January 2016 and effective from 1 January 2019, covers the recognition of leases and related disclosure in the financial statements, and will replace IAS 17 Leases. In the financial statement of lessees, the new standard requires recognition of all contracts that qualify under its definition of a lease as right-of-use assets and lease liabilities in the balance sheet, while lease payments are to be reflected as interest expense and reduction of lease liabilities. The right-of-use assets are to be depreciated in accordance with IAS 16 Property, Plant and Equipment over the shorter of each contract's term and the assets' useful life. The standard consequently implies a significant change in lessees' accounting for leases currently defined as operating leases under IAS 17, both as regards impact on the balance sheet and the statement of income. Since the Group has limited leases the new standard is not expected to have a material effect on the group.

*Disclosure Initiative (Amendments to IAS 1)*

On December 18, 2014, the IASB issued amendments made to IAS 1. The revisions pertain to various disclosure requirements, and clarify that information needs to be disclosed in the notes only if it is material for the company. This explicitly applies if a standard calls for a list of minimum disclosures. Explanations are moreover provided on the aggregation and disaggregation of line items in the balance sheet and income statement. Furthermore, the revised standard clarifies how an entity's share of the other comprehensive income of equity-accounted companies is to be presented in the income statement. The changes will be effective for reporting periods beginning on or after January 1, 2016. The group i assessing the impact.

*Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*

The IASB issued amendments to IAS 16 and IAS 38 on May 12, 2014. These revisions provide further guidance on determining an acceptable method of depreciation and amortization. Revenue-based methods are not permissible for property, plant and equipment and are only permissible for intangible assets in specific exceptional cases (rebuttable presumption of inappropriateness). The changes will be effective for reporting periods beginning on or after January 1, 2016. The amendments are not expected to have a material effect on the Group.

*Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations*

The IASB issued amendments to IFRS 11 on May 6, 2014. IFRS 11 includes regulations on the recognition of assets and liabilities and gains or losses of joint ventures and joint operations. Whereas joint ventures are accounted for using the equity method, joint operations, according to IFRS 11, are recognized in a similar fashion to proportional consolidation. With the changes in IFRS 11, IASB regulates the accounting for the acquisition of shares in a joint operation, which constitutes a business according to IFRS 3 – Business Combinations. In such cases, the acquirer shall apply the principles of the accounting for business combinations according to IFRS 3. Furthermore, the disclosure requirements in IFRS 3 also apply in such cases. The changes will be effective for reporting periods beginning on or after January 1, 2016. The amendments are not expected to have a material effect on the Group.

*IFRS Annual Improvements Cycle 2010–2012*

Under its Annual Improvement Project, the IASB issued amendments to several standards on December 12, 2013. The affected standards are IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24, and IAS 38. The amendments address details of the recognition, measurement and disclosure of business transactions or serve to standardize terminology. The European Union endorsed the changes on January 9, 2015. In a deviation from the IASB's effective date (reporting periods beginning on or after July 1, 2014), IFRS-based financial statements in the European Union must apply the changes for reporting periods beginning on or after February 1, 2015. The amendments are not expected to have a material effect on the Group.

*IFRS Annual Improvements Cycle 2012–2014*

Under its Annual Improvement Project, the IASB issued amendments to several standards on September 25, 2014. The affected standards are IAS 19, IAS 34, IFRS 5 and IFRS 7. The amendments address details of the recognition, measurement and disclosure of business transactions or serve to standardize terminology. The changes will be effective for reporting periods beginning on or after January 1, 2016. An endorsement by the European Union was issued on December 16, 2015. The amendments are not expected to have a material effect on the Group.

# 2.2 Consolidation

a) Subsidiaries

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

As of 31 December 2015, all consolidated subsidiaries are 100 percent controlled by the parent company, Norwegian Energy Company ASA or other group companies. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company does not differ from the proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiary undertakings included in the group. All subsidiary undertakings are included in the consolidation. The group had the following subsidiaries on 31 December 2015:

| Name | Country of incorporation and place of business | Nature of business | Proportion of ordinary shares directly held by parent (%) | Proportion of ordinary shares held by the group (%) |
|---|---|---|---|---|
| Altinex AS | Norway | Intermediate holding company | 100 % | 100 % |
| Norwegian Energy Company UK Ltd | Great Britain | Exploration activity in Great Britain | 100 % | 100 % |
| Noreco Norway AS | Norway | Monetizing the company's assets with the aim of repaying outstanding debt | | 100 % |
| Noreco Denmark A/S | Denmark | Intermediate holding company | | 100 % |
| Noreco Oil Denmark A/S | Denmark | Monetising the company's assets with the aim of repaying outstanding debt | | 100 % |
| Noreco Petroleum Denmark A/S | Denmark | Monetising the company's assets with the aim of repaying outstanding debt | | 100 % |
| Noreco Oil (UK) Ltd | Great Britain | Monetising the company's assets with the aim of repaying outstanding debt | | 100 % |

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised that is not measurement period adjustment in profit or loss. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances, income and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

**b) Changes in ownership interests in subsidiaries without change of control**
Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**c) Disposal of subsidiaries**
When the group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

**c) Interest in jointly controlled assets**
A jointly controlled asset is a contractual agreement between two or more parties regarding a financial activity under joint control. The Group has ownership in licences that are not separate legal companies. All of these are related to licences on the Norwegian, Danish and UK continental shelf. The Company recognises investments in jointly controlled assets (oil and gas licences) by applying the proportionate consolidation method by accounting for its share in the assets income, cost, assets, debt and cash flow in the respective line items in the Company's financial statements.

A number of the group's unincorporated exploration and production activities are conduced through arrangements that are not jointly controlled, either because unanimous consent is not required among all parties involved, or no single group of parties has joint control over the activity. Licence activities where control can be achieved through agreement between more than one combination of involved parties are considered to be outside the scope of IFRS 11, and these activities are accounted for on a pro-rata basis using the group's ownership share. In determining whether each separate arrangement related to the group's unincorporated joint exploration and production licence activities is within or outside the scope of IFRS 11, the group considers the terms of relevant licence agreements, governmental concessions and other legal arrangements impacting how and by whom each arrangement is controlled. Subsequent changes in the ownership shares and number of licence participants, transactions involving licence shares, or changes in the terms of relevant agreements may lead to changes in the group's evaluation of control and impact a licence arrangement's classification in relation to IFRS 11 in the group's consolidated financial statements.

## 2.3 Segment reporting

The group's segments were established on the basis of the most appropriate distribution of resource and result measurement. Segment reporting is regularly evaluated by the company management. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer (CEO). In 2015 Noreco ceased its oil and gas activities and is focusing on implementing the new strategy, and consequently the whole Group is considered as one operating segment.

## 2.4 Foreign currency translation

**a) Functional and presentation currency**
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Norwegian Kroner (NOK), which is the group's presentation currency and the parent company's functional currency.

**b) Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses are recognised in the income statement as other financial income or other financial expenses.

**c) Group companies**
The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

I) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

II) income and expenses for each income statement are translated at the average quarterly exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions)

III) All currency translation adjustments are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation adjustments arising are recognised in other comprehensive income.

# 2.5 Property, plant and equipment

Property, plant and equipment include production facilities, assets under construction and machinery and equipment. Items of property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Cost includes purchase price or construction cost and any costs directly attributable to bringing the assets to a working condition for their intended use, including capitalised borrowing expenses incurred up until the time the asset is ready to be put into operation.

For property, plant and equipment where asset retirement obligations for decommissioning and dismantling are recognised as a liability, this value will be added to acquisition cost for the respective assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in the income statement using the effective interest method.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated separately.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gain or loss from sale of property, plant and equipment, which is calculated as the difference between the sales consideration and the carrying amount, is reported in the income statement under other (losses)/gains. (See also Note 2.6 a) regarding goodwill.)

Expenses related to drilling and equipment for exploration wells where proven and probable reserves are discovered are capitalised and depreciated using the unit-of-production (UoP) method based on the proven and probable reserves expected to be produced from the well. Development cost related to construction, installation and completion of infrastructural facilities such as platforms, pipelines and drilling of production wells, are capitalised as producing oil and gas fields. They are depreciated using the unit-of-production method based on the proven and probable developed reserves expected to be recovered from the area for the economic lifetime of the field. For fields where the oil share of the reserves constitutes the most significant part of the value, the capitalised cost is depreciated based on produced barrels of oil. This gives a more correct matching of expenses and revenue than using all produced oil equivalents. If realisation of the probable reserves demands further future investments, these are added to the basis of depreciation.

Acquired assets used for extraction and production of petroleum deposits, including licence rights, are depreciated using the unit-of-production method based on proven and probable reserves.

Historical cost price for other assets is depreciated over the estimated useful economic life of the asset, using the straight line method.

The estimated useful lives are as follows:
- Office equipment and fixtures: 3-5 years

Assets under construction are not depreciated until the asset is put into operation.

Depreciation methods, useful lives, residual values and reserves are reviewed at each reporting date and adjusted if appropriate.

## 2.5.1 Property, plant and equipment available for sale

Property, plant and equipment are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are measured at the lower of carrying amount and the fair value less costs of disposal.

# 2.6 Intangible assets

**a) Goodwill**
Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

In connection with divestment of assets, gain or loss is calculated by settling all carrying balances related to the realised asset and comparing this with the agreed consideration adjusted for any pro/contra settlement.

In cases where the sold asset forms a part of a cash generating unit to which goodwill is allocated, goodwill is allocated to the sold asset based on the relative share of fair value which forms part of the specific cash generating unit for goodwill. This method is used unless the Company can demonstrate that another method better reflects the goodwill related with the sold asset.

**b) Licence and capitalised exploration expenditures**
Exploration costs are accounted for in accordance with the successful effort method. This means that all exploration costs including pre-operating costs (seismic acquisitions, seismic studies, internal man hours, etc.) are expensed as incurred. Exceptions are costs related to acquisition of licences and drilling of exploration wells.

Exploratory wells are accounted for as follows:
- Costs of exploratory wells which result in proven reserves remain capitalised, but reclassified to property, plant and equipment when the development plan is approved and initiated.
- Costs of dry exploratory wells and wells where proven reserves were not found are expensed in the income statement when sufficient information to complete the assessment has been gathered.
- Cost of exploration wells are temporarily capitalised until a determination is made as to whether the well has found proven reserves or not. In the period before proven reserves are determined and any development begins, the following two conditions must be met:

  - o The well has found a sufficient quantity of reserves to justify its completion as a producing well, if appropriate, assuming that the required capital expenditures are made;
  - o The Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. This progress is evaluated on the basis of indicators such as:

    - Whether additional exploration works are under way or firmly planned, and/or there is nearby exploration activity which is expected to contribute to development of the Group's discoveries (wells, seismic or significant studies),
    - Whether costs are being incurred for development studies,
    - Whether the Group is waiting for governmental or other third-party authorisation of a proposed project,
    - Whether the Group is waiting for availability of capacity on an existing transport or processing facility to be able to produce the existing discovery, and
    - Whether there is a common understanding among the partners to wait with further progress for a specific discovery until an ongoing development project is on stream.

Costs of exploration wells not meeting these conditions are charged to expense on the line item for exploration expenses.

When acquiring shares in exploration licences ("farm-in" agreements) where the agreement is to cover a share of the sellers ("farmor") cost, these expenses are charged in the same manner as own exploration expenses in the income statement.

For similar sales of assets in exploration licences (farm-out agreements), the Group will normally surrender parts of a licence given that the buyer ("farmee") carries some defined cost.

The seller does not recognise any gain/loss but treats the cost as a cost reduction as cost occurs.

In those cases where the carry period starts before the accounting date of the agreement, a profit/loss calculation may be necessary.

Unitisation that occurs when licences or parts of licences are merged normally does not require any accounting. If the new distribution of interest shares constitutes any cash payment, or the Company receives cash, such compensation will be adjusted towards the recognised asset. If there is a subsequent redetermination, such event will normally not require any accounting, as long as cash settlement is not necessary to settle the new distribution.

If the field where unitisation or redetermination occurs is in the production phase, the accounts will be corrected for items in the income statement that are altered in connection with the determination of the new ownership structure.

# 2.7 Impairment of non-financial assets

**a) Unit of account**
The Group applies each prospect, discovery, or field as unit of account for allocation of profit or loss and balance sheet items.

When performing impairment testing of licence and capitalised exploration expenses and production facilities, each prospect, discovery, or field is tested separately as long as they are not defined to be part of a larger cash generating unit.

To be able to group exploration and evaluation assets into one cash-generating unit, they should normally be planned to be part of a joint development, or it is planned and likely that a new discovery can be tied back to another of the Group's fields.

Developed fields producing from the same offshore installation are treated as one joint cash generating unit. The size of a cash-generating unit can not be larger than an operational segment.

Goodwill is tested for impairment at the same level in which the goodwill is allocated. The Group's goodwill, which has its background from the acquisition of Altinex ASA in 2007, is allocated to the following cash generating units: Norway, Denmark, and United Kingdom (UK). Only assets and business which were a part of the acquisition are included in these cash-generating units. During 2015 all goodwill has been impaired.

**b) Impairment testing**
Intangible assets with an indefinite useful life are not subject to amortisation and are tested annually for impairment. Property, plant and equipment subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

# 2.8 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group's business, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which:
- Represents a major line of business or geographical are of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographic are of operations.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. Comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Since the new strategy for Noreco has been implemented by Noreco effectively ceasing to be an E&P company, by selling, relinquishing, termination or forfeiture all its E&P activities, including its E&P staff, the E&P operation is classified as a discontinued operation.

# 2.9 Financial assets

## 2.9.1 Classification

The Group classifies financial assets in the following categories: Financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose of the asset. Management determines the classification of its financial assets at initial recognition.

**a) Financial assets at fair value through profit or loss**
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as available-for-sale unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

**b) Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', "restricted cash" and 'cash and cash equivalents' in the balance sheet (notes 2.11 and 2.12).

## 2.9.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other (losses)/gains' in the period in which they arise.

# 2.10 Impairment of financial assets

**a) Assets carried at amortised cost**
The Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired at the end of each reporting period. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

# 2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either:
a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge)

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value of a hedging derivative is classified as current asset or liability, as long as there is not a material part of the value that relates to a hedge item which matures later then 12 months. Trading derivatives are classified as a current asset or liability.

**Cash flow hedge**
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'Other gains/(losses)'.

Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance expenses'. Gain or loss related to the ineffective part is recognised as "Other gains (/losses)".

When a hedging instrument expires, or is sold, or no longer meets the criteria for hedge accounting, any gain or loss accumulated in other comprehensive income at that time remains within other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the income statement. If a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement within 'other gains/(losses)'.

The Group has no derivatives designated for cash flow hedging as of 31 December 2015.

# 2.12 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

# 2.13 Trade receivables

Cash and cash equivalents includes cash, bank deposits and short term liquid placements, that immediately and with insignificant share price risk can be converted to known cash amounts and with a remaining maturity less than three months from the date of acquisition. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

## 2.14 Over/under lifting of hydrocarbons

Over lifting of hydrocarbons is presented as current liabilities, under lifting of hydrocarbons is presented as current receivables. The value of over lifting or under lifting is measured at the estimated sales value, less estimated sales costs. Over lifting and under lifting of hydrocarbons are presented at gross value. Over/under lift positions at the balance sheet date, are expected to be settled within 12 months from the balance sheet date.

For the accounts, the items are treated as financial instruments at fair value through profit or loss. The item is considered to be a financial instrument as the over/under lift position will be settled in cash at the end of the fields' life time or when the licence is sold or returned.

## 2.15 Share capital and share premium

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or option shares are recognised as a deduction from equity, net of any tax effects.

## 2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are measured at fair value at first time recognition. Subsequent measurements are considered trade payables at amortised cost when using effective interest rate.

## 2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. The subsequent measurement depends on which category they have been classified into. The categories applicable for company are either financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortised cost using the effective interest method. The company has designated the amended and restated bond loan at fair value through profit or loss.

Borrowings are classified as non-current if contractual maturity is more than 12 months from the balance sheet date. If the Group is in breach with any covenants on the balance sheet date, and a waiver has not been approved before or on the balance sheet date with 12 months duration or more after the balance sheet date, the loan is classified as current even if expected maturity is longer than 12 months after the balance sheet date.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or when the contractual obligation expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income as a gain or loss under financial items. Transaction costs incurred during this process are treated as a cost of the settlement of the old debt and included in the gain or loss calculation.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

# 2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they incur.

# 2.19 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

# 2.20 Current and deferred income tax

The tax expense for the period comprises current tax, tax impact from refund of exploration expenses and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets, and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects nether accounting nor taxable profit or loss. Deferred income tax is determined using nominal tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Companies engaged in petroleum production and pipeline transportation on the Norwegian continental shelf are subject to a special petroleum tax on profits derived from these activities. The special petroleum tax is currently levied at 51 per cent. The special tax is applied to relevant income in addition to the standard 27 per cent income tax, resulting in a 78 per cent marginal tax rate on income subject to petroleum tax. The standard income tax rate is changed to 25 per cent from 1 January 2016. The special petroleum tax rate is changed to 53 per cent at the same time, leaving the marginal tax rate on income subject to petroleum tax unchanged. As of 31 December 2015, the deferred tax and deferred tax an asset relating to onshore activity in Norway is calculated with a tax rate of 25e per cent as a consequence of the change in tax rates.

The basis for computing the special petroleum tax is the same as for income subject to ordinary income tax, except that onshore losses are not deductible against the special petroleum tax, and a tax-free allowance, or uplift, is granted at 5.5 per cent per year. The uplift is computed on the basis of the original capitalised cost of offshore production installations. The uplift may be deducted from taxable income for a period of four years, starting in the year in which the capital expenditures are incurred. Uplift benefit is recorded when the deduction is included in the current year tax return and impacts taxes payable. Unused uplift may be carried forward indefinitely. In accordance with the Norwegian Petroleum Taxation Act, sale of oil is taxed according to norm price. In the consolidated financial statements, the difference between norm price and actual obtained price are treated as a permanent difference. Losses carry forward are calculated with a fixed interest rate per year. For 2015, this interest rate is 1.17 per cent. (2016: 0.9 per cent)

Interest expenses on interest-bearing debts are distributed between onshore and offshore activities. The tax allowance for the offshore debt interests are calculated as interest expense multiplied by 50 per cent of the ratio between the tax value of the offshore asset and average interest-bearing debt. The remaining net financial expenses are allocated to onshore. Net finance costs onshore can be transferred to the continental shelf (27 per cent, 25 per cent from 1 January 2016), ref. the Norwegian Petroleum Taxation Act §3d. If interest expense is to related parties and net interest expense exceeds NOK 5 million, they can not be deducted for the amount that exceeds 30 per cent of ordinary income, adjusted for interest and tax depreciation. This rule applies from 2014, but the companies covered by the Norwegian Petroleum Taxation Act § 3 d are as of today exempt. The interest limitation rule will have limited impact on the Group.

The Norwegian Petroleum Taxation Act also regulates the access to demand payment of the tax value of losses that occur from exploration activity on the Norwegian Continental Shelf. For fiscal losses in Group companies that undertake exploration activity on the Norwegian continental shelf, the Company applies for a refund of the tax amount for such a loss. The receivable that then occurs is recognised as short term claim for the current assets, under the line “Tax receivable”. If a business liable for special tax is discontinued, and a loss has not been covered, the Company may claim payment from the Norwegian government of the tax value of its uncovered losses, ref. the Norwegian Petroleum Taxation Act §3c. The tax refund will be determined by the authorities, and will be received at the end of the year following the year of discontinuance of petroleum activity in the parent company.

In the UK, oil and gas companies are subject to a company tax of 20 per cent, in addition to a 30 per cent special tax related to exploration and production activities on the UK Continental Shelf.

In Denmark the maximum marginal tax rate for oil and gas companies is 64per cent, whereof 25 per cent is related to ordinary company tax. At the current oil price level, the Danish subsidiaries will not be in a position where they have to pay the extra petroleum tax. The current tax rate for the Danish companies is 25 per cent.

# 2.21 Pensions

The Group only has defined contribution plans as of 31 December 2015.

**a) Defined contribution plan**
For the defined contribution plan, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory,

contractual or voluntary basis. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**b) Defined benefit plan**
A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined obligations and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

**c) Bonus plans**
The Group recognises a liability and an expense for bonuses based on an estimate that takes into consideration the performance of the Company compared to board approved performance objectives for the period. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

# 2.22 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

Fair value:
- including any market performance conditions
- excludes the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period)

Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period (which is the period over which all of the specified vesting conditions are to be satisfied).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

# 2.23 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) arising from a past event, and it is probable (more likely than not) that it will result in an outflow from the entity of resources embodying economic benefits, and that a reliable estimate can be made of the amount of the obligation.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2.23.1 Asset retirement obligations

Provisions reflect the estimated cost of decommissioning and removal of wells and production facilities used for the production of hydrocarbons. Asset retirement obligations are measured at net present value of the anticipated future cost (estimated based on current day costs inflated). The liability is calculated on the basis of current removal requirements and is discounted to present value using a risk-free rate adjusted for credit risk. Liabilities are recognised when they arise and are adjusted continually in accordance with changes in requirements, price levels etc. When a decommissioning liability is recognised or the estimate changes, a corresponding amount is recorded to increase or decrease the related asset and is depreciated in line with the asset. Increase in the provision as a result of the time value of money is recognised in the income statement as a financial expense.

# 2.24 Contingent liabilities and assets

Contingent liabilities are defined as:
- possible obligations that arise from past events, whose existence depends on uncertain future events.
- present obligations which have not been recognised because it is not probable that they will result in a payment.
- the amount of the obligation cannot be measured with sufficient reliability.

Specific mention of material contingent liabilities is disclosed, with the exception of contingent liabilities where the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements, but are disclosed if there is a certain probability that a benefit will accrue to the Group.

# 2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and added taxes. The group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the production of oil, gas and NGL (hydrocarbons) is recognised depending on the Group's share of production in the separate licences the Group is part of, independently of whether the produced oil and gas has been sold (the entitlement method). Over/under lifting of hydrocarbons as a consequence of the entitlement method is valued to estimated sale value minus estimated sales costs on the reporting date. Over/under lifting occurs when the Group has lifted and sold more or less hydrocarbons from a producing field than what the Group is entitled to at the lift time. See note 2.13 for description of accounting for over/under lifting of hydrocarbons in the balance sheet.

# 2.26 Production cost

Production cost is costs that are directly attached to production of hydrocarbons, e.g. cost for operating and maintaining production facilities and installations. Costs mainly consist of man-hours, insurance, processing costs, environmental fees, transport costs etc.

# 2.27 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

# 2.28 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

# 2.29 Consolidated statement of cash flow

The consolidated statement of cash flow is prepared according to the indirect method. See note 2.12 for the definition of "Cash and cash equivalents".

# 2.30 Subsequent events

**a) Generally about subsequent events**
Events that take place between the end of the reporting period and the issuing of the quarterly or annual accounts, will be considered if the event is of such a nature that it gives new information about items that were present on the balance sheet date.

**b) Treatment of information about dry/non-commercial wells after the end of the reporting period**
The Group expenses recognised drilling costs related to a well if it becomes evident in the period after the reporting period and leading up to the publication of the quarterly or annual report, that the on-going drilling has not identified a commercial discovery.

The same principle applies if new information clarifies the commercial assessment related to a previously drilled prospect, where the commerciality assessment was not completed at the completion of the drilling operation.

# 3 Financial risk management

## 3.1 Financial risk factors

The group's activities expose it to financial risks: market risk (including currency risk, price risk, interest rate risk), credit risk and liquidity risk. The Group uses bank loans and bonds to finance its operations In connection with the day to day business, financial instruments, such as bank deposits, trade receivables and payables, and other short term liabilities which arise directly from its operations, are utilised.

**Market risk**
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market prices. Market risk comprises three types of risk: foreign currency risk, price risk and interest rate risk. Financial instruments affected by market risk include loans and borrowings, deposits, trade receivables, trade payables, accrued liabilities and derivative financial instruments.

**a) Foreign currency risk**
Historically the group has been composed of businesses with various functional currencies in USD, GBP and NOK and hence an significant exposure to fluctuations in currency exchange rates . However following the ceasing of the hydrocarbon business the exposure to foreign exchange risk for series of payments in other currencies than the functional currency, has decreased and the only significant exposure to the group is USD/NOK currency exchange risk associated with the insurance receivable. A decrease in the average exchange rate and the closing rate of USD with 5 percent would have an impact on income statement and equity of NOK 25 million.

**b) Price risk**
The main risk the group has been exposed to during the year, with regards to its incoming cash flow, is related to the development of the oil and gas prices. As of year end the new strategy for Noreco has been implemented, whereby the Group is effectively ceasing to be an E&P company, by selling, relinquishing, termination or forfeiture off its E&P activities, including all of its E&P staff. The E&P operation is classified as a discontinued operation. Noreco has as of 31 December outstanding bond debt, which is listed at Oslo Stock exchange, and which is recorded at fair value. A deviation from recorded fair value would directly affect the company's recorded equity, and correspondingly the group is exposed to the development on the bond debt. An increase of 10% on the market value in comparison to par value on each of the bonds as of 31/12 would influence the Net result negative for the period by approximately NOK 99 million.

**c) Interest rate risk**
Loans with floating interest rate represent an interest risk for the group's future cash flow. Loans with fixed interest rate expose the Group to risk (premium/discount) associated with changes in the market interest rate. At year-end, the group has a total of NOK 942million (2014: NOK 3 335 million) in interest-bearing debt (nominal value), of which NOK 441 million (2014: NOK 3 335 million) is classified as current. Of the Group's debt, NOK 832 million (2014: NOK 3 051 million) are loans with a fixed interest rate. The remaining, NOK 110 million (2013: NOK 284 million), are loans with a floating interest rate. The exploration loan is the only loan with a floating interest at 31 December 2015. For further information about the Group's interest-bearing debt, see Note 24.

All bank deposits (NOK 1 250 million) are at floating interest rates. See note 18 Restricted cash, bank deposits, cash and cash equivalents for further information about bank deposits.

At the end of the reporting period, the majority of interest bearing debt had a fixed interest rate. The Group considers the risk exposure to changes in market interest to be at an acceptable level.

During 2015 the interest expenses related to the exploration loan amounted to NOK 22 million including amortisation of borrowing cost. The interest terms for the loan are 3 month NIBOR + a 2.5 per cent margin. The average 3M NIBOR in 2015 were 1.29 per cent and an increase of 10 per cent to 1.42 per cent would increase the interest expenses related to exploration loan with NOK 0.5 million.

*Liquidity risk*
Management of liquidity risk implies maintaining a sufficient buffer of cash and cash equivalents. The group's cash forecasts indicate that liquidity will be sufficient in the next 12 months. The group has substantial unrestricted cash reserves. The NOR06 bond loan and the exploration facility will primarily be serviced by Noreco Norway AS, which for liquidity purposes is ring-fenced, while the remaining Noreco group will service the NOR10 bond loan. Noreco has furthermore implemented a new strategy which effectively implies that it has ceased to be an E&P company, and is consequently claiming tax refund in Noreco Norway.

Completion of the financial restructuring in early 2015 implies that Noreco until final maturity of the bond loans in 2018 will pay interest and instalments only to the extent that remaining liquidity is sound. Hence, there are no mandatory scheduled down payments on the bond loans within the next twelve months. However, if Noreco disposes of assets, all or the majority of the proceeds or increased cash-flow may be dedicated to down payment of the bond debt.

The company's debt ratio remains high which may restrict Noreco's ability to raise additional capital through issuance of new shares or other debt instruments.

*Credit risk*
The groups most significant credit risk arises principally from recognised receivables and insurance arrangements related to the group's operation. The credit risk arising from the production of oil, gas and NGL is considered limited, as sales during 2015 are to major oil companies with considerable financial resources. As of year end the Group has effectively ceased to be an oil & gas company and will only have limited exposure going forward. The counterparty in derivatives and insurance related issues are large international banks and insurance companies whose credit risk is considered low. The group is entitled to a tax refund from the Norwegian tax authorities in accordance with the Norwegian Petroleum Taxation Act relating to exploration expenditures on Norwegian exploration licenses. The credit risk relating to the refund is considered low.

The maximum credit risk can be summarised as follows:

| Maximum credit risk (NOK million) | Note | 2015 | 2014 |
|---|---|---|---|
| **non-current assets** | | | |
| Restricted cash | 18,20 | 620 | 576 |
| Receivables | 30 | 521 | 440 |
| Total | | 1 141 | 1 016 |
| | | | |
| **Current assets** | | | |
| Assets held for sale | 26 | 12 | |
| Tax refund | 15 | 119 | 315 |
| Derivatives | 19,20 | | 28 |
| Trade receivables and other current assets | 17,20 | 21 | 189 |
| Restricted cash | 18,20 | 178 | 33 |
| Bank deposits, cash and cash equivalents | 18,20 | 452 | 644 |
| Total | | 783 | 1 209 |
| **Maximum credit risk** | | **1 924** | **2 225** |

## 3.2 Capital risk management

The group's objectives when managing capital is to safeguard the group's ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders and to maintain an acceptable capital structure to reduce the cost of capital.

The group manages its capital structure in relation to the risk. The management of the capital structure involves active monitoring and making adjustments to the financing instruments in parallel with changes in economic conditions and the risk characteristics of the underlying assets. The objective to the Group has changed during 2015, as Noreco has effectively ceased to be an E&P company, by selling, relinquishing, termination or forfeiture all its E&P activities, including its E&P staff.

The group monitors the debt with the basis of cash flows, equity ratio and the gearing ratio.

See further information regarding borrowings and covenants in Note 24.

## 3.3 Fair value estimation

The Group has certain financial instruments carried at fair value. The different levels have been defined as follows:

**Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities**
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price.

**Level 2: Inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly or indirectly**
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specified valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;

**Level 3: Inputs for other assets or liabilities that are not based on observable market data**
Other techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments included in this level. See Note 20 for fair value hierarchy and further information.

# 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. This also includes the evaluation as held for sale and discontinued operations.

## 4.1 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Due to the change in the Group's assets and liabilities the uncertainty related to the applied assumptions and estimates have reduced significantly during the year. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

**a) Estimated value of financial assets**
For every reporting date, an assessment is made on whether objective evidence is present that financial assets or groups of financial assets should be written down. The Group has an insurance claim where the expected settlement is estimated in connection with the impairment test in accordance to IAS 39.

**b) Income tax**
All figures reported in the income statement and balance sheet are based on the group's tax calculations, and should be regarded as estimates until the tax for the year has been settled. Norwegian tax authorities can be of a different opinion than the company with regards to what constitutes exploration cost and continental shelf deficiency in accordance with the Petroleum Taxation Act. See also Note 15.

**c) Asset retirement obligation**
Production of oil and gas is subject to statutory requirements relating to decommissioning and removal obligation once production has ceased. Provisions to cover these future decommissioning and removal expenditures must be recognised at the time the statutory requirement arises. The costs will often incur some time in the future, and there is significant uncertainty attached to the scale and complexity of the decommissioning and removal involved. Estimated future costs (estimated based on current costs inflated) are based on known decommissioning and removal technology, expected future price levels, and the expected future decommissioning and removal date, discounted to net present value using a risk-free rate adjusted for credit risk. Changes in one or more of these factors could result in changes in the decommissioning and removal liabilities; however through agreements with partners and the group structure these obligations are capped and very little uncertainty is attached to the estimates.

## 4.2 Critical judgements in applying the entity's accounting policies

**a) Impairment testing of financial assets**
The Group follows the guidance of IAS 39 to determine impairment of receivables recognised in accordance with amortised cost. This determination requires significant judgement. The Group has a receivable due from the company's insurance companies, and the judgement used as basis for the Company's impairment test include a number of technical and legally complex conditions. See Notes 17 and 29 for further information.

**b) Assessment and classification as discontinued operations.**
The group has during 2015 sold, relinquished, terminated or forfeitured all of its E&P activities, including its E&P staff. The group has used considerable judgement in determining, and presenting its oil and gas business as discontinuing. See note 5 for more information.

# 5 Discontinued operations

In October 2014, Noreco initiated a comprehensive financial restructuring due to a material decrease in the company's debt servicing ability. Noreco initiated during the winter a financial restructuring process and a restructuring proposal was presented in February 2015. The restructuring proposal entailed that Noreco would be converting NOK 1 979 million of bond debt to equity with NOK 1 218 million of bond debt remaining on amended terms, including amended maturities, with possible payment-in-kind interest and no fixed amortizations except final maturity in three years, but with "cash sweep" if cash should become available. The restructuring proposal was approved in March 2015, and Noreco has since focused on implementing the new strategy.

The new strategy entails re-payment of bonds whenever the cash flow allows it, and secure a return of investment to the shareholders. During 2015 the company has implemented the plan by ceasing to be an E&P company. Today the Group only has a 10% interest in a Danish oil field (Lulita) to maintain hydrocarbon tax position in order to protect main assets. During 2015 Noreco has sold, relinquished, terminated or forfeitured all its E&P activities, including its E&P staff. According to IFRS 5 the company is required to present its E&P business as discontinued to ensure that the accounts reflect its current operation.

When the sales that are currently presented as Held for Sale (Sale of the Norwegian oil field Enoch to CapeOmega and sale of the Norwegian E&P business including operatorships, staff contracts and other contracts related to the operation to Djerv Energi AS) are completed then Noreco has 6 employees (4 in Denmark and 2 in Norway), the 10% share in the oil field Lulita, an insurance claim related to damages suffered related to the Siri platform, the tax balances and the bond loans NOR06 and NOR10. On the 3rd February Noreco announced that it did not receive sufficient bondholder approval for the Djerv-Deal. On the 2nd of March Noreco announced a similar deal with Det Norske Oljeselskap ASA, please see note 35 Subsequent event. The Djerv deal has been the basis for estimating fair value less cost to sell at year end 2015. Thus an profit and loss effect is expected in 2016 due to the change from the Djerv deal to the Detnor deal. The Detnor deal has a cash cash consideration of NOK 44.5 million as oppose to the Djerv deal of NOK 74 million.

**Consolidated statement of income for discontiued operation**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Revenue** | **431** | **1 106** |
| Production expenses | (233) | (578) |
| Exploration and evaluation expenses (1) | (593) | (837) |
| Payroll expenses (2) | (58) | (74) |
| Other operating expenses | (34) | (57) |
| Other (losses) / gains (3) | (70) | 30 |
| **Total operating expenses** | **(988)** | **(1 516)** |
| **Operating result before depreciation and write-downs (EBITDA)** | **(557)** | **(410)** |
| Depreciation | (70) | (401) |
| Write-downs and reversals of write-downs | (420) | (2 887) |
| **Net operating result (EBIT)** | **(1 046)** | **(3 698)** |
| Financial income | 11 | 15 |
| Financial expenses | (89) | (177) |
| **Net financial items** | **(77)** | **(163)** |
| **Result before tax (EBT)** | **(1 123)** | **(3 861)** |
| Income tax benefit / (expense) | (3) | 1 555 |
| **Net result for the period** | **(1 126)** | **(2 306)** |
| Earnings per share discontinued operation (NOK 1) | | |
| Basic | (200) | (4 116) |
| Diluted | (200) | (4 116) |

1) The Djerv deal has the consequence that Noreco Norway no longer has any exploration assets. The book value of the company's exploration assets was NOK 253 million prior to the Djerv deal. The expensed book value has been treated as a exploration cost in 2015.
2) Included in the payroll expenses is the remaining expense on the employee option programme for the personnel employed in Noreco Norway AS, NOK 5 million.
3) Included in Gain/Loss for 2015 is the net gain on the Oselvar deal and the provisions made as a consequence of the Djerv-deal and the Enoch deal. The Djerv deal results in establishment of a provision for the consideration to be paid by Noreco of NOK 74 million. The Enoch deal results in establishment of an additional provision for the consideration of NOK 4 million.

**Cash flow from (used) in discontinued operation**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Net cash from operating activities | 1 041 | 3 816 |
| Net cash from investing activities | (56) | (319) |
| Net cash from financing activities | | |
| Net cash flow for the period | 985 | 3 498 |

**Effect of disposal on the financial position of the Group (see also Note 27)**

The table shows the effect that the disposals, including impairment as a result of the disposals, have on the financial position of the group

| (NOK million) | 2015 |
|---|---|
| License and capitalised exploration | 325 |
| Goodwill | 23 |
| Deferred tax asset | |
| Property plant and equipment | 428 |
| Derivatives | 28 |
| Trade receivables and other current assets | 169 |
| Asset retirement obligations | (612) |
| Trade payables and other current liabilities | (458) |
| Net assets and liabilities | (98) |
| Consideration received, satisfied in cash | 184 |
| Cash and cash equivalents disposed of | |
| Compensation according to settlement agreement [1] | (60) |
| Net cash inflow | 124 |

1) See Director's report

Though the Djerv deal – the sale of the Norwegian E&P activities - did not materialize due to lack of support from the bondholders (please refer subsequent events in Note 35) another SPA for the sale of these activities to Det Nor was signed in 2016. Correspondingly it is classified as held for sale as of year end.

# 6 Segment information

The group has in 2015 ceased its E&P activities and is focusing on implementing the new strategy which is considered as one operating segment.

Following the financial restructuring, completed in March 2015, the group in first quarter reassessed its segment reporting. As a result from the clear separation between Noreco Norway AS (Ringfence 2) and the rest of the group (Ring fence 1) in the amended and restated bond loan agreements (see note 15), the operating segments of Noreco was from Q1 divided into two, Noreco Norway Group (Ringfence 2) and the rest of the group - "Other - Ringfence 1".

Transactions between the companies in the group are carried out at ordinary conditions which would have been equivalent for independent parties.

Financial information for the operating segments should reflect management reporting. For management reporting the bond loans are valued and presented to the principal amount and change in fair value and amortisation of unrealised gain is excluded in the income statement. Furthermore, as it is clear from management perspective that the subsidiary Noreco Oil (UK) Ltd is unable to raise financing for its liabilities and that the group is also unable to support the company, the liablity has been derecognised to reflect the real value of the company to the group.

**Information 2015**

**Condensed income statement**

| (NOK million) | Other Ringfence 1 | Noreco Norway Ringfence 2 | Inter company | Group | GAAP adjustments | IFRS Group |
|---|---|---|---|---|---|---|
| Total revenue | 13 | | | 13 | | 13 |
| Total operating expenses | (25) | | | (25) | | (25) |
| Depreciations | (2) | | | (2) | | (2) |
| Write-downs and reversal of write-downs | (11) | | | (11) | | (11) |
| Net operating result | (25) | - | - | (25) | - | (25) |
| Net financial items | 1 716 | (35) | | 1 681 | 133 | 1 814 |
| Result before tax | 1 691 | (35) | - | 1 656 | 133 | 1 789 |
| Income tax benefit / (expense) | 23 | 7 | | 30 | (28) | 2 |
| Net result for the period discontinued operations after tax | (517) | (292) | | (809) | (317) | (1 126) |
| Net result for the period | 1 197 | (320) | - | 877 | (212) | 665 |
| **Condensed statement of financial position** | | | | | | |
| Licence and capitalised exploration expenses | (0) | - | | (0) | | |
| Goodwill | (0) | - | | (0) | | |
| Property, plant and equipment | 2 | - | | 2 | | 2 |
| Other assets | 1 511 | 791 | | 2 302 | (28) | 2 275 |
| Total assets | 1 513 | 791 | | 2 304 | (28) | 2 277 |
| Equity | 442 | (83) | | 360 | (216) | 144 |
| Asset retirement obligations | 586 | - | | 586 | 251 | 837 |
| Bond loans | 327 | 638 | | 964 | (133) | 832 |
| Other liabilities | 158 | 236 | | 395 | 70 | 465 |
| Total liabilities | 1 071 | 874 | | 1 945 | 188 | 2 133 |
| **Capital expenditure** | | | | | | |
| Capital expenditures production facilities | (6) | 1 | | (5) | | (5) |
| Capital expenditures exploration and evaluations | 114 | 71 | | 185 | | 185 |
| Total capital expenditure | 108 | 71 | | 180 | | 180 |

Information 2014

**Condensed income statement**

| (NOK million) | Other Ringfence 1 | Noreco Norway Ringfence 2 | Inter company | Group | GAAP adjustments | IFRS Group |
|---|---|---|---|---|---|---|
| Total revenue | 37 | | | 37 | | 37 |
| Total operating expenses | (75) | | | (75) | | (75) |
| Depreciations | (6) | | | (6) | | (6) |
| Write-downs and reversal of write-downs | 1 | | | 1 | | 1 |
| Net operating result | (43) | - | | (43) | | (43) |
| Net financial items | (581) | (36) | | (617) | | (617) |
| Result before tax | (624) | (36) | | (660) | - | (660) |
| Income tax benefit / (expense) | 44 | 10 | | 54 | | 54 |
| Net result for the period discontinued operations after tax | (2 088) | (218) | | (2 306) | | (2 306) |
| Net result for the period | (2 668) | (244) | | (2 912) | - | (2 912) |
| **Condensed statement of financial position** | | | | | | |
| Licence and capitalised exploration expenses | 66 | 259 | | 325 | | 325 |
| Goodwill | 23 | - | | 23 | | 23 |
| Property, plant and equipment | 428 | | | 428 | | 428 |
| Other assets | 1 942 | 917 | | 2 858 | | 2 858 |
| Total assets | 2 458 | 1 176 | | 3 634 | | 3 634 |
| Equity | (928) | 125 | | (803) | | (803) |
| Asset retirement obligations | 540 | 73 | | 612 | | 612 |
| Bond loans | 3 051 | - | | 3 051 | | 3 051 |
| Other liabilities | (205) | 978 | | 773 | | 773 |
| Liabilities | 3 386 | 1 051 | | 4 437 | | 4 437 |
| **Capital expenditure** | | | | | | |
| Capital expenditures production facilities | 12 | 0 | | 12 | | 12 |
| Capital expenditures asset under construction | - | - | | - | | - |
| Capital expenditures exploration and evaluations | 40 | 267 | | 307 | | 307 |
| Total capital expenditure | 52 | 267 | | 319 | | 319 |

# 7 Revenue

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Continued operation** | | |
| Sale of oil | 10 | 27 |
| Sale of gas and NGL | 3 | 10 |
| **Total revenue continued operation** | **13** | **37** |
| **Total revenue discontinued operation** | **431** | **1 106** |
| **Total revenue** | **444** | **1 143** |

As of year end the Group has only a 10% ownership in the Danish oilfield Lulita left as a continuing operation.

| Revenue per customer, continued operation | 2015 | 2014 |
|---|---|---|
| DONG E&P | 100.0 % | 100.0 % |
| Total | 100.0 % | 100.0 % |

# 8 Production expenses

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Continued operation** | | |
| Lulita | (6) | (9) |
| **Total production expenses continued operation** | **(6)** | **(9)** |
| **Total production expenses discontinued operation** | **(233)** | **(578)** |
| **Total production expenses** | **(238)** | **(587)** |

# 9 Exploration and evaluation expenses

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Continued operation** | | |
| Acquisition of seismic data, analysis and general G&G costs | - | - |
| Exploration wells capitalised in previous years | - | - |
| Dry exploration wells this period | - | - |
| Other exploration and evaluation costs | - | - |
| **Total exploration and evaluation costs continued operation** | **-** | **-** |
| **Total exploration and evaluation costs discontinued operation** | **(593)** | **(837)** |
| **Total exploration and evaluation costs** | **(593)** | **(837)** |

# 10 Payroll expenses and remuneration

Personnel expenses consists of the following:

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Continued operation** | | |
| Salaries | (6) | (6) |
| Social security tax | (0) | (0) |
| Pensions costs (note 23) | (1) | (0) |
| Costs relating to share-based payments (note 28) | (3) | (2) |
| Other personnel expenses | (0) | (0) |
| Personnel expenses charged to operated licenses | (0) | (0) |
| **Total personell expenses continued operation** | **(10)** | **(9)** |
| **Total personell expenses discontinued operation** | **(66)** | **(78)** |
| **Total personell expenses** | **(76)** | **(87)** |

| | 2015 | 2014 |
|---|---|---|
| **Average number of employees, continued operations** | **4** | **4** |
| **Average number of employees, discontinued operation** | **31** | **48** |
| **Average number of employees** | **35** | **52** |

The staff in the discontinued operation consist of the E&P organisation in Denmark (discontinued during 2015) and the organisation in Noreco Norway. The organisation in Norway is part of the agreement made with Djerv Energi AS, ref. note 5.

**Compensation to key management for 2015**

| (NOK 1 000) | Remuneration | Bonus earned 2014, paid 2015 | (1) Retention bonus for 2014 paid 2015 | Pension | (2) Other remuneration | (3) Total compensation | (4) Number of shares | (5) Number of options and bonus shares | (6) Shares purchased in 2015 |
|---|---|---|---|---|---|---|---|---|---|
| **Senior executives** | | | | | | | | | |
| Silje Christine Augustson (9) | | | | | | | | | |
| Group CEO | 397 | | | | | 397 | | | |
| Tommy Sundt (7) | | | | | | | | | |
| CEO | 6 897 | | | 73 | 642 | 7 612 | | | |
| Svein Arild Killingland | | | | | | | | | |
| CEO | 4 213 | | | | 120 | 4 333 | | | |
| Odd Arne Slettebø (8) | | | | | | | | | |
| CFO | 1 519 | | | 65 | 189 | 1 773 | | | |
| Lars Fosvold | | | | | | | | | |
| VP, Exploration | 2 166 | | 300 | 76 | 379 | 2 920 | 226 | | |
| Øyvind Sørbø | | | | | | | | | |
| VP, Commercial | 1 951 | | 200 | 75 | 326 | 2 551 | 135 | | |
| **Total compensation 2015** | **17 143** | | **500** | **289** | **1 656** | **19 586** | **361** | | |
| Total compensation 2014 | 11 256 | 3 195 | 500 | 372 | 3 431 | 18 755 | | | |

1) The accrued retention bonus for 2014 was settled in January 2015. Total retention bonus for both years is 500.000.
2) Other remuneration include compensation for lapse of pension agreement exceeding 12G, telephone, broadband and other minor remunerations
3) All figures stated regarding salary and other compensation based on full year 2015, not only part of the year that person held a position with reporting requirement
4) The number of shares owned by key management is allocated between private shareholding and shareholding through companies controlled by key management. Number of shares owned as of 31 December 2015
5) The employee options program in Noreco Norway was discontinued in Q4 2015. All options in Noreco Norway were subsequently cancelled
6) Figures show net increase in share holding in 2015
7) Tommy Sundt stepped down as CEO 13 October 2015 and was replaced by Silje Christine Augustson
8) Odd Arne Slettebø stepped down as CFO 31 October 2015
9) Compensation only includes salary as CEO, and not compensation as a board memeber

No bonuses have been earned during 2015.

| (NOK 1 000) | Director's fees | [1] Total compensation | [2] Number of shares | [3] Number of options and bonus shares | [4] Shares purchased in 2015 | Period served on the board | |
|---|---|---|---|---|---|---|---|
| **Current Board of directors** | | | | | | | |
| Silje Christine Augustson [5]<br>Chair of the Board | 497 | 2 915 | | | | 27/10/14 | |
| Riulf Rustad<br>Board member | 304 | 2 890 | 30 205 | | 30 205 | 27/03/15 | |
| Julien Balkany<br>Board member | 304 | 1 036 | | | | 27/03/15 | |
| Andreas Alnæs Greve-Isdahl [6]<br>Alternate board member | 222 | 222 | | | | 27/10/14 | |
| **Previous Board of Directors** | | | | | | | |
| Erik Henriksen<br>Chair of the Board | 17 | 17 | | | | 03/10/14 | 12/1/15 |
| John-Kaare Aune<br>Board member | 84 | 84 | | | | 19/01/15 | 27/3/15 |
| Ariane Foisy<br>Board member | 84 | 84 | | | | 19/01/15 | 27/3/15 |
| Bård Arve Lærum<br>Board member<br>staff representative | 38 | 38 | | | | 01/01/14 | 30/3/15 |
| Lotte Kjørboe<br>Board member<br>staff representative | 73 | 73 | 27 | | | 21/11/14 | 26/6/15 |
| **Total compensation 2015** | **1 624** | **7 360** | **30 232** | **0** | **30 205** | | |
| Total compensation 2014 [7] | 2 101 | 2 101 | 25 944 682 | 67 586 | 2 193 240 | | |

1) Total compensation includes for the Chairman and each Director payment for services rendered as consultants in accordance with consultancy agreement with a remuneration of NOK 2,000 per hour and success fee for sale of certain assets in the range of NOK 500 000 to NOK 1 000 000. Total compensation for Riulf Rustad also includes 1 per cent of the secured minimum payment of USD 15 million to Noreco in relation to the Siri insurance claim.
2) The number of shares owned by board members is allocated between private shareholding and shareholding through companies controlled by board members. Number of shares owned as of 31 December 2015
3) The number of options includes bonus shares according to the Company's incentive arrangement
4) Figures show the net increase in share holding in 2015
5) Silje Christine Augustson was elected to the board 27 October 2014, and was elected as Chair of the Board 13 January 2015 and reelected as Chair of the Board 27 March 2015
6) Andreas Greve-Isdahl was elected to the board on the 27 October 2014 and was elected as alternate board member 27 March 2015
7) Numbers have not been adjusted by the reverse stock splitt

**Director's fees**

The annual remuneration to board members is decided on by the Shareholder's Meeting. Current benefits are;

The Chair of the Board receives an annual remuneration of NOK 500 000 and the other shareholder elected members of the board receive an annual remuneration of NOK 400 000. The remuneration is paid quarterly. The Board members have entered into consultancy agreements to provide services to the Company on an hourly basis at a cost of NOK 2 000 per hour. In addition the three board members elected by shareholders are compensated for a sale of certain assets in the range of NOK 500 000 to NOK 1 000 000. Also Riulf Rustad will receive 1 per cent of net insurance proceeds received by the Noreco's bondholders and/or shareholders in connection with the Siri-claim. As of year end Riulf Rustad has already received 1% of the USD 15 million return to the partnership with Awilhelmsen Special Opportunities AS and QVT Financial LP. All of the above mentionings fees are included in table.

Employee elected board representatives receive an annual remuneration of NOK 150 000, and deputy director of the board receive NOK 5 000 per meeting. The remuneration is paid quarterly.

In addition to the above, Board members are reimbursed for travel expenses and other expenses in connection with company related activities.

**Board of Directors' Statement on Remuneration to the CEO and the Executive Officers**

In accordance with §6-16a of the Norwegian Public Limited Liability Companies Act, the Board of Directors of Norwegian Energy Company ASA ("Noreco" or the "Company") has prepared a statement related to the determination of salary and other benefits for the CEO and other executive officers. When the sales that are currently presented as Held for Sale (Sale of the Norwegian oil field Enoch to CapeOmega and sale of the Norwegian E&P business including operatorships, staff contracts and other contracts related to the operation to Detnor) are completed, Noreco will only have a Group- CEO and no other executive officers.

The guidelines, set out below for the Group-CEO's salary and other benefits, is for the coming fiscal year and will be presented to the shareholders for their advisory vote at the Annual General Meeting on 26 May 2016. The total compensation package for the Group-CEO shall be competitive, reflect the responsibilities and effort required, reward success and ensure alignment of interest with shareholders.

The remuneration package for the Group-CEO includes fixed and variable elements. The fixed element consist of an annual base salary of NOK 1.8 million (approximately half the level of the two previous CEOs of the group) and other benefits, such as free mobile phone and life, accident and sickness insurance in accordance with normal practice in the industry.
The Group-CEO, is in entitled to a 3 months' redundancy payment as opposed to previous practice of 12 months' base salary, in addition to salary in the termination period if the employment is terminated.

Variable elements of remuneration may be used or other special supplementary payment may be awarded than those mentioned above if this is considered appropriate. At an extraordinary General meeting held at 21 January 2016, the General assembly authorized the Board of Directors to grant options to buy or subscribe up to a total of 200,000 shares in the Company, 100,000 of which were granted to the Group-CEO.

Remuneration to the Group-CEO will be evaluated regularly by the Remuneration and Corporate Governance Committee and the Board of Directors to ensure that salaries and other benefits are kept, at all times, within the above guidelines and principles.

**Compensation to key management for 2014**

| (NOK 1 000) | Remuneration | Bonus earned 2013, paid 2014 | (1) Retention bonus for 2014 paid 2015 | Pension | (2) Other remuneration | (3) Total compensation | (4) Number of shares | (5) Number of options and bonus shares | (6) Shares purchased in 2014 |
|---|---|---|---|---|---|---|---|---|---|
| **Senior executives** | | | | | | | | | |
| Tommy Sundt (7)(9) | | | | | | | | | |
| CEO | 913 | | | 29 | 143 | 1 085 | | | |
| Svein Arild Killingland (7) | | | | | | | | | |
| CEO | 3 380 | 1 708 | | 74 | 692 | 5 853 | 15 000 | 179 736 | 15 000 |
| Odd Arne Slettebø (8) | | | | | | | | | |
| CFO | 1 250 | 118 | | 69 | 114 | 1 550 | 2 282 | 25 780 | 2 000 |
| Ørjan Gjerde (9) | | | | | | | | | |
| CFO | 1 708 | 823 | | 54 | 235 | 2 820 | 10 000 | | 10 000 |
| Lars Fosvold | | | | | | | | | |
| VP, Exploration | 2 134 | 294 | 300 | 74 | 1 398 | 4 199 | 22 912 | 92 282 | 20 000 |
| Øyvind Sørbø | | | | | | | | | |
| VP, Commercial | 1 872 | 254 | 200 | 73 | 850 | 3 249 | 13 542 | 79 226 | 11 606 |
| **Total compensation 2014** | **11 256** | **3 195** | **500** | **372** | **3 431** | **18 755** | **63 736** | **377 024** | **58 606** |
| Total compensation 2013 | 13 739 | 2 764 | 0 | 1 143 | 3 751 | 21 397 | | | |

1) The accrued retention bonus for 2014 was settled in January 2015
2) Other remuneration include compensation for lapse of pension agreement exceeding 12G, telephone, broadband and other minor remunerations
3) All figures stated regarding salary and other compensation based on full year 2014, not only part of the year that person held a position with reporting requirement
4) The number of shares owned by key management is allocated between private shareholding and shareholding through companies controlled by key management. Number of shares owned as of 31 December 2014.
5) The number of options includes bonus shares according to the Company's incentive arrangement
On 21 January 2014 the repair share issue related to the refinancing in the fourth quarter 2013 was completed. On the repair key management received shares.
6) Figures show net increase in share holding in 2014
7) Tommy Sundt was appointed CEO from the 24 November 2014 replacing Svein Arild Killingland
8) Odd Arne Slettebø was appointed CFO from the 24 November 2014 replacing Tommy Sundt
9) Ørjan Gjerde left Noreco 31 August 2014 and was replaced by Tommy Sundt who joined Noreco on 2 September 2014 as CFO

The Company has not issued any loans or acted as a guarantor for directors or management.

| (NOK 1 000) | Director's fees | Total compensation | (1) Number of shares | (2) Number of options and bonus shares | (3) Shares purchased in 2014 | Period served on the board |
|---|---|---|---|---|---|---|
| **Current Board of directors** | | | | | | |
| Silje Christine Augustson [4]<br>Chair of the Board | 70 | 70 | | | | 27/10/14 |
| Riulf Rustad<br>Board member | | | | | | 27/03/15 |
| Julien Balkany<br>Board member | | | | | | 27/03/15 |
| Liselotte Vibeke Kiørboe<br>Board member<br>staff representative | 16 | 16 | 2 661 | 33 177 | 2 281 | 21/11/14 |
| Andreas Alnæs Greve-Isdahl [5]<br>Alternate board member | 70 | 70 | | | | 27/10/14 |
| **Previous Board of Directors** | | | | | | |
| Erik Henriksen<br>Chair of the Board | 350 | 350 | 17 047 675 | | 2 167 799 | 04/02/14 – 01/10/14<br>27/10/14 – 13/01/15 |
| Ståle Kyllingstad<br>Chair of the Board | 28 | 28 | 8 579 586 | | | 01/01/14 – 04/02/14 |
| Morten Garman<br>Chair of the Board | 328 | 328 | | | | 04/02/14 – 01/10/14 |
| Tone Bjørnov<br>Deputy chair | 14 | 14 | | | | 27/10/14 – 11/11/14 |
| Eimund Nygaard<br>Board member | 19 | 19 | 277 016 | | | 01/01/14 – 04/02/14 |
| Trygve Pedersen<br>Board member | 202 | 202 | | | | 25/04/14 – 27/10/14 |
| Hilde Drønen<br>Board member | 338 | 338 | 400 | | | 01/01/14 – 27/10/14 |
| Ingrid Marika Svärdström<br>Board member | 292 | 292 | 11 828 | | | 04/02/14 – 27/10/14 |
| David Gair<br>Board member | 90 | 90 | 6 660 | | 6 660 | 04/02/14 – 25/04/14 |
| Bård Arve Lærum<br>Board member<br>staff representative | 150 | 150 | 9 192 | 34 409 | 8 000 | 01/01/14 – 30/03/15 |
| Hilde Alexandersen<br>Board member<br>staff representative | 134 | 134 | 9 664 | | 8 500 | 01/01/14 – 21/11/14 |
| **Total compensation 2014** | **2 101** | **2 101** | **25 944 682** | **67 586** | **2 193 240** | |
| Total compensation 2013 | 1 774 | 1 774 | | | | |

1) The number of shares owned by board members is allocated between private shareholding and shareholding through companies controlled by board members. Number of shares owned as of 31 December 2014
2) The number of options includes bonus shares according to the Company's incentive arrangement
3) Figures show net increase in share holding in 2014
4) Silje Christine Augustson was elected to the board 27 October 2014, was elected as Chair of the Board 13 January 2015 and reelected as Chair of the Board 27 March 2015
5) Andreas Greve-Isdahl was elected to the board on the 27 October 2014 and was elected as alternate board member 27 March 2015

# 11 Other operating expenses

Specification of other operating expenses

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Continued operation** | | |
| Lease expenses | (1) | (1) |
| IT expenses | (3) | (1) |
| Travel expenses | (1) | (1) |
| Office cost | (1) | (1) |
| Consultant fees | (0) | (41) |
| Other operating expenses | (3) | (3) |
| Other operating expenses charged to own operated licenses | 0 | 0 |
| **Total other operating expenses continued operation** | **(8)** | **(48)** |
| **Total other operating expenses discontinued operation** | **(34)** | **(57)** |
| **Total other operating expenses** | **(43)** | **(104)** |

Auditor’s fees (ex. VAT)

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Continued operation** | | |
| Auditor's fees | (1) | (3) |
| Other assurance service | (0) | (1) |
| Other non-audit assistance | (0) | 0 |
| **Total audit fees continued operation** | **(2)** | **(4)** |
| **Total audit fees discontinued operation** | | |
| **Total audit fees** | **(2)** | **(4)** |

# 12 Other (losses) / gains

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Continued operation | | |
| Change in value, other derivatives | 2 | (5) |
| Gain /(loss) on sale of assets | 4 | - |
| Total other (losses) / gains continued operation | 7 | (5) |
| Total other (losses) / gains discontinued operation | (70) | 30 |
| Total other (losses) / gains | (63) | 25 |

| (Loss) / gain per divestment | | Accounting date | 2015 | 2014 |
|---|---|---|---|---|
| Lulita (farm down) | | 30.06.15 | 4 | - |
| Nini / Cecilie | Discontinued operation | 30.06.15 | (33) | - |
| Pl274 Oselvar (farm out) | Discontinued operation | 27.11.15 | (78) | - |
| PL484 Verdande (farm out) | Discontinued operation | 15.01.14 | - | 0 |
| Total (Loss) / gain per divestment | | | (106) | 0 |
| Hereof discontinued operations | | | (111) | 0 |
| **Total (Loss) / gain per divestment, continued operation** | | | **4** | - |

All figures are stated before tax effects associated with the divestments.

# 13 Intangible fixed assets

**Intangible fixed assets at 31 December 2015**

| (NOK million) | Licence and capitalised exploration expenditures | Goodwill | Total |
|---|---|---|---|
| Acquisition costs at 1 January 2015 | 325 | 1 157 | 1 482 |
| Additions | 185 | - | 185 |
| Expensed exploration expenditures previously capitalised | (505) | - | (505) |
| Disposal | (11) | (209) | (220) |
| Reclassified to assets held for sale (see note 26) | - | (38) | (38) |
| Currency translation adjustment | 6 | 185 | 191 |
| **Acquisition costs at 31 December 2015** | | **1 095** | **1 095** |
| **Accumulated depreciation and write-downs** | | | |
| Accumulated depreciation and write-downs 1 January 2015 | - | (1 134) | (1 134) |
| Write-downs | | (13) | (13) |
| Disposal | | 198 | 198 |
| Reclassified to assets held for sale (see note 26) | | 38 | 38 |
| Currency translation adjustment | - | (183) | (183) |
| **Accumulated depreciation and write-downs 31 December 2015** | **-** | **(1 095)** | **(1 095)** |
| **Book value 31 December 2015** | **-** | **-** | **-** |

**Intangible fixed assets at 31 December 2014**

| (NOK million) | Licence and capitalised exploration expenditures | Goodwill | Total |
|---|---|---|---|
| Acquisition costs at 1 January 2014 | 743 | 1 025 | 1 768 |
| Additions | 307 | - | 307 |
| Expensed exploration expenditures previously capitalised | (758) | - | (758) |
| Currency translation adjustment | 33 | 203 | 236 |
| **Acquisition costs at 31 December 2014** | **325** | **1 228** | **1 553** |
| **Accumulated depreciation and write-downs** | | | |
| Accumulated depreciation and write-downs 1 January 2014 | - | (852) | (852) |
| Depreciations | - | - | - |
| Write-downs | - | (164) | (164) |
| Disposal | | - | - |
| Currency translation adjustment | - | (191) | (191) |
| **Accumulated depreciation and write-downs 31 December 2014** | **-** | **(1 206)** | **(1 206)** |
| **Book value 31 December 2014** | **325** | **23** | **348** |

The remining goodwill was full impaired during 2015

**Overview of write-downs**

| (NOK million) | Write-downs 2015 | Write-downs 2014 |
|---|---|---|
| Goodwill United Kingdom | | (134) |
| Goodwill Denmark | (13) | (29) |
| Goodwill Norway | | |
| **Total write-downs** | **(13)** | **(164)** |

**Overview of write-offs (Expensed exploration expenditures previously capitalised) 2015**

| (NOK million) | | Write-offs before tax | Income tax benefit/ expense | Net write-off after tax |
|---|---|---|---|---|
| P1889 Niobe | Discontinued operation | (35) | | (35) |
| 9/95 Xana | Discontinued operation | (140) | 35 | (105) |
| PL492 Gohta | Discontinued operation | (254) | 198 | (56) |
| PL616 Haribo | Discontinued operation | (74) | 57 | (16) |
| Other | Discontinued operation | (2) | 1 | (0) |
| **Total write-offs 2015** | | **(505)** | **292** | **(213)** |

**Overview of write-offs (Expensed exploration expenditures previously capitalised) 2014**

| (NOK million) | Write-offs before tax | Income tax benefit/ expense | Net write-off after tax |
|---|---|---|---|
| P1114 Huntington Fulmar | (600) | 372 | (228) |
| PL484 Verdande | (158) | 123 | (35) |
| Other | (0) | (1) | (1) |
| **Total write-offs 2014 - Discontinued Operations** | **(758)** | **494** | **(264)** |

**Impairment test of intangible assets**

In accordance with the Group's accounting policies, an impairment test for the Group's goodwill and capitalised exploration expenses has been carried out at 31 December 2015. The impairment tests are carried out by the company and are based on expected cash flows from relevant reserves and resources (value-in-use).

**The impairment calculations are based on the following assumptions:**

| | 2015 | 2014 |
|---|---|---|
| Discount rate (after tax) | 10.0 per cent | 10.0 per cent |
| Inflation | 2.0 per cent | 2.0 per cent |
| Cash flow | After tax | After tax |
| Prognosis period (1) | Estimated lifetime of the oil/gas field or expected ownership term if shorter | Estimated lifetime of the oil/gas field or expected ownership term if shorter |
| Reserves/resources (2) | Internal estimated resources and reserves as of 31 December 2015 | Internal estimated resources and reserves as of 31 December 2014 |
| Oil price (3) | Forward curve for oil price for the period 2016-2017. From 2018 the oil price is adjusted for inflation. | Forward curve for oil price for the period 2015-2017. From 2018 the oil price is adjusted for inflation. |
| Currency rates | Average forward-rate for the period 2016-2018. From 2019 the average rate for 2018 is used. | Average forward-rate for the period 2015-2018. From 2019 the average rate for 2018 is used. |

1) In estimating the recoverable amount for fields, an estimation period corresponding to the lifetime of the individual field is used, or the expected ownership period if this is shorter. This is because the production profiles and investment costs significantly affect the value of future cash flows and can be reasonably estimated over the total lifetime of the oil fields.
2) As a basic rule, the Company's resource estimates are applied for impairment testing. For the resources applied for impairment testing of intangible assets, the Company performs an assessment to identify any deviations from resource estimates from the partners in the licences. If any deviations are identified, an estimate which place greater emphasis on information from other partners and other external sources are applied.
3) Forward curve for Brent blend from accessible market data is applied for forecasting of expected revenue from sale of oil. Gas, NGL, and condensate prices are derived using the oil price based on historical correlation. Revenue for each field is adjusted for the quality of the product. For some fields, Noreco has entered into fixed price agreements, and these prices are applied for those fields when calculating the future cash flows.

**Result from impairment test of goodwill as of 31 December 2015**

The remaining goodwill was fully impaired during 2015.

**Result from impairment test of Licence and capitalised exploration expenses as of 31 December 2015**

During the year, a number of impairment tests of the intangible assets have been performed. The Djerv deal has the consequence that Noreco Norway AS no longer has any exploration licenses left. On 3rd of February, Noreco announced that it didn't receive necessary bondholder for the Djerv-Deal. Subsequently, on 2nd of March a new deal was announced which in essence is very similar to the Djerv-Deal, please refer to Note 5 and Note 34. The book value of its licenses was consequently impaired fully due to the Djerv-Deal since asset classified as held for sale shall be recorded at the lower of carrying amount and fair value less cost to sell. The expensed book value is presented in the income statement as part of discontinued operations as an exploration expense, ref. Note 5.

# 14 Property, plant and equipment

**Property, plant and equipment at 31 December 2015**

| (NOK million) | Production facilities | Office equipment and fixtures | Total |
|---|---|---|---|
| Acquisition costs at 1 January 2015 | 6 668 | 5 | 6 673 |
| Additions | (6) | 1 | (5) |
| Revaluation abandonment assets | 43 | | 43 |
| Disposal | (3 480) | (0) | (3 480) |
| Reclassified to assets held for sale (see note xx) | (78) | (1) | (79) |
| Currency translation adjustment | 642 | 1 | 643 |
| **Acquisition costs at 31 December 2015** | **3 790** | **6** | **3 796** |
| **Accumulated depreciation** | | | |
| Accumulated depreciation and write downs 1 January 2015 | (6 241) | (5) | (6 245) |
| Depreciation | (71) | | (71) |
| Write-downs / reversal of writedowns | (418) | (1) | (419) |
| Disposals | 3 454 | | 3 454 |
| Reclassified to assets held for sale (see note xx) | 78 | 1 | 79 |
| Currency translation adjustment | (590) | (1) | (591) |
| **Accumulated depreciation and write downs 31 December 2015** | **(3 788)** | **(6)** | **(3 793)** |
| **Book value 31 December 2015** | **2** | **0** | **2** |
| Economic life | N/A | 3-5 years | |
| Depreciation plan | UoP | Straight line | |

**Property, plant and equipment at 31 December 2014**

| (NOK million) | Production facilities | Office equipment and fixtures | Total |
|---|---|---|---|
| Acquisition costs at 1 January 2014 | 5 514 | 4 | 5 518 |
| Additions | 12 | 0 | 12 |
| Revaluation abandonment assets | 161 | | 161 |
| Disposal | | | |
| Currency translation adjustment | 981 | 1 | 981 |
| **Acquisition costs at 31 December 2014** | **6 668** | **5** | **6 673** |
| **Accumulated depreciation** | | | |
| Accumulated depreciation and write downs 1 January 2014 | (2 427) | (4) | (2 431) |
| Depreciation | (407) | | (407) |
| Write-downs / reversal of writedowns | (2 722) | | (2 722) |
| Disposals | | | |
| Currency translation adjustment | (685) | (1) | (685) |
| **Accumulated depreciation and write downs 31 December 2014** | **(6 241)** | **(5)** | **(6 245)** |
| **Book value 31 December 2014** | **427** | **0** | **428** |
| Economic life | N/A | 3-5 years | |
| Depreciation plan | UoP | Straight line | |

**Impairment test of property, plant and equipment**
The impairment tests are carried out by the company and are based on expected cash flows from the Group's producing fields (Value-in-use). As of year end the Group only has a 10% ownership in the Danish oilfield Lulita not classifed as held for sale or as discontinued operations.

**Main assumptions applied for the impairment test on 31 December**

| | 2015 | 2014 |
|---|---|---|
| Discount rate (after tax) | 10.0 per cent | 10.0 per cent |
| Inflation | 2.0 per cent | 2.0 per cent |
| Cash flow | After tax | After tax |
| Prognosis period (1) | Estimated lifetime of the oil/gas field or expected ownership term if shorter | Estimated lifetime of the oil/gas field or expected ownership term if shorter |
| Reserves/resources (2) | Internal estimated reserves at 31 December 2015 | Internal estimated reserves at 31 December 2014 |
| Oil price (3) | Forward curve for oil price for the period 2016-2017. From 2018 the oil price is adjusted for inflation. | Forward curve for oil price for the period 2015-2017. From 2018 the oil price is adjusted for inflation. |
| Currency rates | Average forward-rate for the period 2016-2018. From 2019 the average rate for 2018 is used. | Average forward-rate for the period 2015-2018. From 2019 the average rate for 2018 is used. |

1) In estimating the recoverable amount for fields, an estimation period corresponding to the lifetime of the individual field is used, or the expected ownership period if this is shorter. This is because the production profiles and investment costs significantly affect the value of future cash flows and can be reasonably estimated over the total lifetime of the oil fields.
2) The Company's reserve estimates are applied for impairment testing.
3) Forward curve for Brent blend from accessible market data is applied for forecasting of expected revenue from sale of oil. Gas, NGL, and condensate prices are derived using the oil price based on historical correlation. Revenue for each field is adjusted for the quality of the product.

**Result from impairment test as of 31 December 2015**

During 2015 the recoverable amount for the Huntington field in the UK was written down in full due to default on payment of cash calls which subsequently resulted in forfeiture of the license, whereas the liabilities according to the JOA remains with the Noreco Oil UK resulting in a negative net value of NOK 281 mill. Due to the company being unable to raise financing for the liabilties it is the view of Management that Noreco Oil (UK) Ltd either will initaite liquidiation proceedings or enter into a solution with its partners. Either of these actions is expected to result in the net liability being derecognised, in full or in part. Any amount derecognised without settlement will give rise to a gain, expected to be realised in 2016.

Overview of write-downs and reversals 2015

| (NOK million) | | Write-downs before tax | Income tax benefit/ expense | Net write-downs and reversals after tax |
|---|---|---|---|---|
| Huntington | Discontinued operation | (404) | | (404) |
| Lulita | | (11) | 3 | (9) |
| Enoch | Discontinued operation | (3) | 2 | (1) |
| Other | Discontinued operation | (1) | 1 | (0) |

**Sensitivities related to the impairment test of assets which are carried at recoverable amount**

The book value of Lulita is equal to the recoverable amount by the end of 2015, and changes in the assumptions may require future write-downs. The write-downs may be fully or partially reversed if new information results in increased recoverable amounts. As of year end the book value of the 10% ownership interest in Lulita is 2 MNOK, and changes in the assumption would only have minor effects.

# 15 Financial income and expenses

| (NOK million)<br>Financial income | 2015 | 2014 |
|---|---|---|
| **Continued operation** | | |
| Interest income | 16 | 23 |
| Gain on extinguishment of debt | 2 176 | - |
| Change in fair value of bond debt | 58 | - |
| Foreign exchange gains | 166 | 134 |
| Other financial income | 14 | 95 |
| **Total financial income continued operation** | **2 431** | **252** |
| **Total financial income discontinued operation** | **11** | **15** |
| **Total financial income** | **2 442** | **267** |

| Financial expenses | 2015 | 2014 |
|---|---|---|
| **Continued operation** | | |
| Interest expense from bond loans | (91) | (820) |
| Interest expenses current liabilities | (22) | (1) |
| Accretion expense related to asset retirement obligations (ref note 23) | (1) | (1) |
| Foreign exchange losses | (65) | (48) |
| Change in fair value of bond debt | (437) | - |
| **Total financial expenses continued operation** | **(617)** | **(870)** |
| **Total financial expenses discontinued operation** | **(89)** | **(177)** |
| **Total financial expenses** | **(705)** | **(1 047)** |

| | | |
|---|---|---|
| **Net financial items continued operation** | **1 814** | **(617)** |
| **Net financial items discontinued operation** | **(77)** | **(163)** |
| **Net financial items** | **1 737** | **(780)** |

| Cash flow details relating to financial income and expenses | 2015 | 2014 |
|---|---|---|
| *Amortisation* | | |
| Amortisation of borrowing costs included in interest expenses (1) | - | (634) |
| *Paid transaction cost* | | |
| Incurred transaction cost (2) | (70) | - |
| Unpaid transaction cost at year end | - | - |
| Paid transaction cost from previous periods | - | (34) |
| Paid transaction cost for the period | (70) | (34) |

1) Out of the toal interest expenses on the bond loans for 2014, coupon and default interests amount to NOK 56 million. As a consequence of the bonds being in default on 31 December 2014 and thus the creditors had the right to call the entire bonds for payment, the bond loans were reclassified to current liabilities and the remaining difference between principal amounts and book values of NOK 510 million was recognised in 2014. Coupon and amortisation in 2014 amounted to NOK 198 million and NOK 622 million, respectively.
2) Consulting fees relating to the financial restructuring in 2015.

# 16 Tax

**Income tax**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Income (loss) before tax (result before tax from continuing operations/discontinuing operations 1789/(1123)) | 665 | (4 520) |
| Income tax benefit / (expense) | (0) | 1 609 |
| Equivalent to a tax rate of | 0.1 % | 35.6 % |

The effective tax rate for 2015 was 0.1 per cent compared to 35.6 per cent last year. Noreco operates in three countries and six different tax regimes with separate tax rates. As such, the weighted average tax rate varies from period to period based on variations of the tax basis. More information regarding the relevant tax rates may be found in note 2.19.

The net result before tax is impacted by increased value on bond debt, measured at market price at the end of the period. In addition there is zero recognised tax effect related to income in Noreco ASA due to significant un-recognised tax loss carry forward.

Deferred tax asset and deferred tax liability are presented net for each jurisdiction and tax regime, where our legal entities have, or are expected to have a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority, due to the company not beeing able to identify future inome to defend the deferred tax asset.

**Deferred tax and deferred tax asset:**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Net operating loss deductable | (3 065) | (2 971) |
| Fixed assets | (24) | 197 |
| Current assets | (99) | - |
| Liabilities | 293 | (254) |
| Other | - | (108) |
| **Basis of deferred tax/deferred tax asset** | **(2 895)** | **(3 136)** |
| **Net deferred tax/deferred tax asset** | **(859)** | **(1 483)** |
| Unrecognised deferred tax asset | 560 | 850 |
| **Deferred tax/deferred tax asset recognised** | **(300)** | **633** |
| Recognised deferred tax asset | (347) | 633 |
| Recognised liability | 47 | - |
| Recognised deferred tax asset domestic | 347 | 513 |
| Recognised deferred tax asset foreign | - | 120 |
| Recognised deferred tax domestic | - | - |
| Recognised deferred tax foreign | 47 | - |
| **Net deferred tax/deferred tax asset** | **(300)** | **660** |

The onshore tax loss carry forwards in Noreco Norway AS is subject to the Norwegian Petroleum Taxation Act §3c.  The tax balances included in the Oselvar transaction has been netted against Gain/Loss.

**Tax refund**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Non-current assets** | | |
| Non-current tax refund related to Norwegian exploration activity | (0) | - |
| **Current assets** | | |
| Tax refund related to Norwegian exploration activity in 2015 | 119 | - |
| Tax refund related to Norwegian exploration activity in 2014 | | 315 |
| **Total tax refund** | **119** | **315** |

**Tax payable**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Tax payable in Norway | | |
| Tax payable other countries | 37 | 28 |
| **Total tax payable** | **37** | **28** |

All figures reported in the income statement and the statement of financial position are based on Noreco's tax calculations, and should be considered estimates until the final tax return is settled for each specific year.

As disclosed in the report for the first quarter 2015 the Company have received inquiries from the Danish tax authorities regarding tax treatment of certain divestments executed in 2011. In January 2016 the company received a ruling resulting in an increased tax payment for 2011 of NOK 37 million which has been accounted for. However, the Company is of the opinion that all transactions have been treated correctly in the submitted tax returns and the ruling therefore will be challenged.

**Reconciliation of nominal to actual tax rate**

| (NOK million) | 2015 | % | 2014 | % |
|---|---|---|---|---|
| **Income (loss) before tax** | **665** | | **(4 520)** | |
| Calculated tax expense on profit before tax | (180) | 27 % | 1 221 | 27 % |
| Adjustment of calculated tax expense in foreign subsidiaries in relation to difference in tax rate | 14 | (2 %) | 86 | 2 % |
| Petroleum tax expense | 222 | (33 %) | 1 309 | 29 % |
| *Tax effect of:* | | | | |
| Change in recognised deferred tax assets compared to previous years | (874) | 131 % | (770) | (17 %) |
| Effect of change in tax rate | 14 | 2 % | | 0 % |
| Permanent differences | 139 | (26 %) | 166 | 4 % |
| Currency translation adjustments | | 0 % | (388) | (9 %) |
| Other items | | 0 % | (15) | 0 % |
| **Income tax benefit** | **0** | **0 %** | **1 609** | **36 %** |

**Tax refund**

Noreco Norway AS is the only entity with exploration activity in Norway during 2015 and 2014

# 17 Earnings per share

Earnings per share are calculated by dividing the profit attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares in issue during the year.

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Net result attributable to ordinary shareholders | 665 | (2 912) |
| Shares issued 1 January | 56 757 843 | 4 656 094 082 |
| Shares issued during the year | 652 715 195 | (4 599 336 239) |
| Reverse splitt | (702 378 308) | - |
| Shares issued at 31 Desember | 7 094 730 | 56 757 843 |
| Weighted average number of shares (*) | 5 642 260 | 56 032 843 |
| **Earnings per share (NOK 1) (*)** | | |
| Earnings per share | 117.9 | (5 196.5) |
| Diluted earnings per share | 117.8 | (5 196.5) |

*) Weighted average number of shares and earnings per share for comparable periods have been revised due to the reverse split that was completed in 2015, for more information see note 22.

The Company had in 2014 an option program which included all employees in the Group. The option programme for personnel employed in Noreco Norway was canceled during the end of 2015 due to the Djerv transaction.

# 18 Non-current receivables, trade receivables and other current assets

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Non-current assets** | | |
| Other receivables (1) | 521 | 440 |
| **Total non-current assets** | **521** | **440** |
| **Current assets** | | |
| Trade receivables (*) | 2 | 86 |
| Receivables from operators relating to joint venture licences (*) | 5 | 48 |
| Underlift of oil/NGL (*) | 0 | 23 |
| Prepayments | 1 | 12 |
| Other receivables (*) | 13 | 20 |
| **Total trade receivables and other current receivables** | **21** | **189** |

*) See note 21 for fair value disclosures

1) The company continues to progress an insurance claim which is related to damage to the Siri platform that was discovered in 2009. The total claim exceeds NOK 3 billion, of which NOK 521 million (the USD amount is unchanged since 31 December 2014 and the NOK increase is recognised as a currency gain) is recognised as a non-current receivable at 31 December 2015. The book value of the receivable relates to costs incurred to prevent further damage, and loss of production income in 2009/2010. Based on technical documentation containing third party evaluations and the insurance agreements, the company remains firm that the claim is covered and at a minimum the booked amounts will be awarded.

The court hearing has been scheduled for September 2016.

The Group's trade receivables mainly consisted of receivables related to sales of hydrocarbons. The debtors are large established oil companies and the credit risk is considered to be low. The Group has not realised any losses on receivables in 2015 and 2014.

**Ageing analysis of trade receivables and other short term receivables on 31 December 2015**

| (NOK million) | Total | Not past due | Past due > 30 days | 30-60 days | 61-90 days | 91-120 days | > 120 days |
|---|---|---|---|---|---|---|---|
| Trade receivables | 2 | 2 | 0 | | | | |
| Receivables from operators relating to joint venture licences | 5 | 5 | | | | | |
| Underlift of oil/NGL | 0 | 0 | | | | | |
| Prepayments | 1 | 1 | | | | | |
| Other receivables | 13 | 13 | | | | | |
| **Total** | **21** | **21** | **0** | | | | |

**Ageing analysis of trade receivables and other short term receivables on 31 December 2014**

| (NOK million) | Total | Not past due | Past due > 30 days | 30-60 days | 61-90 days | 91-120 days | > 120 days |
|---|---|---|---|---|---|---|---|
| Trade receivables | 86 | 16 | 69 | | | 0 | 1 |
| Receivables from operators relating to joint venture licences | 48 | 48 | | | | | |
| Underlift of oil/NGL | 23 | 23 | | | | | |
| Prepayments | 12 | 12 | | | | | |
| Other receivables | 20 | 12 | 8 | | | | |
| **Total** | **189** | **111** | **77** | **-** | **-** | **0** | **1** |

# 19 Restricted cash, bank deposits, cash and cash equivalents

Specification of restricted cash, bank deposits, cash and cash equivalents

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Non-current assets** | | |
| Restricted cash pledged as security for abandonment obligation in Denmark, DKK 445 million plus interest | 581 | 546 |
| Other restricted cash and bank deposits | 39 | 31 |
| Total non-current restricted cash | 620 | 576 |
| **Current assets** | | |
| Restricted cash for repayments to bondholders | 173 | - |
| Other restricted cash and bank deposits | 5 | 33 |
| Total current restricted cash | 178 | 33 |
| Unrestricted cash, bank deposits, cash equivalents | 452 | 644 |
| **Total bank deposits** | **1 250** | **1 254** |

**Overdraft facilities**

**As at 31 December 2015**

| (NOK million) | Facility amount in currency | NOK | Used | Unused | Available |
|---|---|---|---|---|---|
| NOK (Exploration loan facility in Noreco Norway AS) | 400 | 400 | 110 | | |
| **Total** | | **400** | **110** | | |
| Unrestricted cash, bank deposits, cash equivalents and quoted shares | | | | | 452 |
| **Accessible liquidity at 31 December 2015** | | | | | **452** |

1) The basis for utilisation of the exploration loan facility is 70 percent of exploration losses which are entitled to 78 percent tax refund from the Norwegian tax authorities.

The exploration loan facility amount has after year end been reduced to the actual drawn down amount.

**As at 31 December 2014**

| (NOK million) | Facility amount in currency | NOK | Used | Unused | Available |
|---|---|---|---|---|---|
| NOK (Exploration loan facility in Noreco Norway AS) | 850 | 850 | 284 | 566 | |
| **Total** | | **850** | **284** | **566** | |
| Unrestricted cash and cash equivalents | | | | | 644 |
| **Accessible liquidity at 31 December 2014** | | | | | **644** |

# 20 Derivative financial instruments

**Interest rate swap agreements**

The Group entered into a interest rate swap agreement to secure a fixed interest for most of the Group's loans with floating interest prior to the refinancing (Note 25). The agreements matched the critical terms of the loan agreements, and as such, hedge accounting was applied. The hedge accounting for the interest rate swap agreements ceased in December 2013 as the underlying debt was refinanced. As a consequence all impacts in other comprehensive income relating to hedge accounting were reclassified to Other (losses)/ gains in the income statements. The remaining interest swap agreement is carried at fair value through profit and loss as of year end 2015.

On 31 December 2015, the Group had the following interest rate swap:

(NOK million)

| Derivatives held for trading | Notional principal | | Receive | Pay | Maturity | Fair value 31.12.2015 |
|---|---|---|---|---|---|---|
| Interest rate swap | 325 | NOK | 3M NIBOR | 2.58 % | 27.04.16 | (1) |
| **Total book value** | | | | | | **(1)** |

On 31 December 2014, the Group had the following interest rate swap:

(NOK million)

| Derivatives held for trading | Notional principal | | Receive | Pay | Maturity | Fair value 31.12.2014 |
|---|---|---|---|---|---|---|
| Interest rate swap | 325 | NOK | 3M NIBOR | 2.58 % | 27.04.16 | (3) |
| **Total book value** | | | | | | **(3)** |

# 21 Financial instruments

## 21.1 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows (se also note 3.3):
Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 - Inputs for the asset or liability that are not based on observable market data.

**On 31 December 2015**

| (NOK million) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| **Recurring fair value measurements of assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Underlift of oil (ref. note 17) | | 0 | | 0 |
| - Quoted shares | 3 | | | 3 |
| **Total** | **3** | **0** | **-** | **3** |
| | | | | |
| **Liabilities** | | | | |
| **Recurring fair value measurements of liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - Interest rate swap agreements (ref. note 19) | | 1 | | 1 |
| - Bond loans | 304 | | 527 | 832 |
| - Overlift of oil (ref. note 25) | | (0) | | (0) |
| **Total** | **304** | **1** | **527** | **833** |

**On 31 December 2014**

| (NOK million) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| **Recurring fair value measurements of assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| - Trading derivatives | | 28 | | 28 |
| - Underlift of oil (ref. note 17) | | 23 | | 23 |
| **Total** | | **51** | | **51** |
| | | | | |
| **Liabilities** | | | | |
| **Recurring fair value measurements of liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - Interest rate swap agreements (ref. note 19) | | 3 | | 3 |
| - Overlift of oil (ref. note 25) | | 4 | | 4 |
| **Total** | | **8** | | **8** |

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value for a financial instrument are observable, the instrument is included in level 2.

The fair value of commodity derivatives and over/underlift of hydrocarbons are based on the spot oil price at closing date. The fair value of interest rate swap agreements is based on market's expectation for future interests. The fair value of foreign exchange derivatives are based on the spot foreign exchange rate at the closing date, as well as the market's expectation for future interests. Fair value of bond loans are based on executed trades at applicable market places and if appropriate, supplemented by other market based information such as broker quotes and subesquent trades adjusted for any significant time differences. Due to lack of sufficient volumes at year end, the observed market price has only been a starting point for the valuation. Due to the stock announcement regarding the Djerv deal was made after the last trade, valuation techniques have been used in order to determine a best estimate for the fair value of the bonds. The bonds have been valued based on the information on the Djerv-deal and the anounced estimated reapyment to the Bondholders.

The NOR06 has followingly changed from level 1 to level 3 An increase of 10% on the market value in comparison to par value on each of the bonds as of year end 2015 would influence the Net result negative in the period by approximately NOK 9 million.

## 21.2 Financial instruments by category

**As at 31 December 2015**

| (NOK million) | Loans and receivables | Assets at fair value through profit or loss | Total |
|---|---|---|---|
| **Assets** | | | |
| Derivatives | | | |
| Trade receivables and other current assets | 20 | 0 | 21 |
| Restricted cash | 798 | | 798 |
| Bank deposits, cash and cash equivalents | 450 | 3 | 452 |
| Total | 1 268 | 3 | 1 271 |

| (NOK million) | Other financial liabilities at amortised cost | Liabilities at fair value through profit or loss | Total |
|---|---|---|---|
| **Liabilities** | | | |
| Bond loan | | 832 | 832 |
| Other interest bearing debt | 110 | | 110 |
| Derivatives | | 1 | 1 |
| Trade payables and other current liabilities | 162 | (0) | 162 |
| Total | 272 | 833 | 1 104 |

**As at 31 December 2014**

| (NOK million) | Loans and receivables | Assets at fair value through profit or loss | Total |
|---|---|---|---|
| Assets | | | |
| Derivatives | | 28 | 28 |
| Trade receivables and other current assets | 154 | 23 | 177 |
| Restricted cash | 609 | | 609 |
| Bank deposits, cash and cash equivalents | 644 | | 644 |
| Total | 1 408 | 51 | 1 459 |

| (NOK million) | Other financial liabilities at amortised cost | Liabilities at fair value through profit or loss | Total |
|---|---|---|---|
| **Liabilities** | | | |
| Bond loan | 3 051 | | 3 051 |
| Other interest bearing debt | 284 | | 284 |
| Derivatives | | 3 | 3 |
| Trade payables and other current liabilities | 442 | 4 | 447 |
| Total | 3 777 | 8 | 3 785 |

# 21.3 Financial instruments - Fair values

Set out below is a comparison of the carrying amounts and fair value of financial instruments:

**As at 31 December 2015**

| (NOK million) | Note | Carrying amount | Fair value |
|---|---|---|---|
| Financial assets: | | | |
| Trade receivables and other current assets (*) | 17 | 21 | 21 |
| Restricted cash (*) | 19 | 798 | 798 |
| Bank deposits, cash, cash equivalents and quoted shares (*) | | 452 | 452 |
| Total | | 1 271 | 1 271 |
| | | | |
| Financial liabilities: | | | |
| Bonds (current and non current) | 24.1 | 832 | 832 |
| Other interest bearing debt (*) | 24.1 | 110 | 110 |
| Derivatives | 20 | 1 | 1 |
| Trade payables and other current liabilities (*) | 25 | 162 | 162 |
| Total | | 1 104 | 1 104 |

*) The carrying amount is a reasonable approximation of fair value, hence the items are not included in the fair value hierarchy as the information in not required.

**As at 31 December 2014**

| (NOK million) | Note | Carrying amount | Fair value |
|---|---|---|---|
| Financial assets: | | | |
| Derivatives | 20 | 28 | 28 |
| Trade receivables and other current assets (*) | 17 | 177 | 177 |
| Restricted cash (*) | | 609 | 609 |
| Bank deposits, cash and cash equivalents (*) | | 644 | 644 |
| Total | | 1 459 | 1 459 |
| | | | |
| Financial liabilities: | | | |
| Bonds (current and non current) | 24.1 | 3 051 | 1 030 |
| Other interest bearing debt | 24.1 | 284 | 284 |
| Derivatives | 20 | 3 | 3 |
| Trade payables and other current liabilities (*) | 25 | 447 | 447 |
| Total | | 3 785 | 1 764 |

*) The carrying amount is a reasonable approximation of fair value, hence the items are not included in the fair value hierarchy as the information in not required.

# 22 Share capital

| | 2015 | 2014 |
|---|---|---|
| Total shares (all ordinary shares) | 7 094 730 | 56 757 843 |
| Par value (NOK 1) | 10.00 | 0.10 |

The Group does not own any of its parent company shares. All shares have equal rights. All shares are fully paid.

**Changes in number of shares and share capital:**

| (NOK million) | No. Of shares | Share Capital |
|---|---|---|
| **Share capital on 1 January 2014** | **4 656 094 082** | **466** |
| Share issue (repair) on 21 January 2014 | 1 000 000 000 | 100 |
| Share issue employees on 14 February 2014 | 2 391 002 | 0 |
| Share issue for reverse split on 17 September 2014 | 16 | 0 |
| Reverse split 17 September 2014 | (5 601 900 249) | - |
| Share issue through partial conversion of bond on 22 October 2014 | 172 992 | 2 |
| **Share capital on 31 December 2014** | **56 757 843** | **568** |

| (NOK million) | No. Of shares | Share Capital |
|---|---|---|
| **Share capital on 1 January 2015** | **56 757 843** | **568** |
| Share capital reduction 3 March 2015 | - | (562) |
| Share issue 23 March 2015 | 652 715 195 | 65 |
| Reverse split (amalgamation) on 13 May 2015, 1:100 | (702 378 308) | - |
| **Share capital on 31 December 2015** | **7 094 730** | **71** |

**Changes in 2015**
On 3 March 2015 Noreco carried out a share capital reduction by a reduction in the nominal value of the ordinary shares from NOK 10 to NOK 0.10. The amount of the reduction was applied to cover losses which could not be covered otherwise. On the 23 March, Noreco issued 652 715 195 new shares, which were settled by conversion of bond debt. In addition, a reverse split of the company's shares in the ratio 100:1 was carried out on 13 May 2015. By completion of the reverse split, the company's share capital was NOK 70 947 303.8 divided on 7 094 730 ordinary shares, each with a nominal value NOK 10.

**Existing mandates**
The Board of Directors was in 2014 granted a mandate by the General Meeting to increase the share capital by a total amont of up to NOK 16 million by one or more share issues in relation to employee incentive schemes existing at any time for employees in the group. Following the reverse split that was completed in Q3 2014, the limit was reduced to NOK 160 000. After the reverse split performed in April 2015, the limit is NOK 1 600. The mandate expires on 1 June 2016. The mandate has not been utilised as of 31/12 2015.

In January 2016 the Board of Directors was granted a new mandate by the General Assembley, for more informatin please refer to Note 34 on subsequent events.

**Overview of shareholders at 08 April 2016:**

| Name | Shareholding | Ownership share | Voting share |
|---|---|---|---|
| Goldman Sachs & Co E GOLDMAN SACHS & CO | 965 863 | 13.61 % | 13.61 % |
| SPARINVEST SICAV-SIF C/O Deutsche Bank AG | 461 461 | 6.50 % | 6.50 % |
| STATE STREET BANK & S/A SSB CLIENT OMNI | 310 724 | 4.38 % | 4.38 % |
| SPARINV: HIGH YI VAL BNY MELLON SA/NV | 294 565 | 4.15 % | 4.15 % |
| Goldman Sachs Intern SECURITY CLIENT SEGR | 260 871 | 3.68 % | 3.68 % |
| NORTH ENERGY ASA | 250 000 | 3.52 % | 3.52 % |
| EUROCLEAR BANK S.A./ 25% CLIENTS | 243 452 | 3.43 % | 3.43 % |
| Morgan Stanley & Co. MS & CO INTL PLC MSI | 167 217 | 2.36 % | 2.36 % |
| OUSDAL AS | 157 975 | 2.23 % | 2.23 % |
| JPMORGAN CLEARING CO A/C CLEARING ACCOUNT | 136 068 | 1.92 % | 1.92 % |
| MP PENSJON PK | 121 533 | 1.71 % | 1.71 % |
| HANASAND EINAR MIKAL | 114 888 | 1.62 % | 1.62 % |
| ANKO INVEST AS | 110 645 | 1.56 % | 1.56 % |
| ØSTLANDSKE PENSJONIS | 102 139 | 1.44 % | 1.44 % |
| LEIKVOLLBAKKEN AS | 100 007 | 1.41 % | 1.41 % |
| NORDNET BANK AB | 96 020 | 1.35 % | 1.35 % |
| CLEARSTREAM BANKING | 87 992 | 1.24 % | 1.24 % |
| DANSKE BANK 3993 NORDIC SETTLEME | 81 371 | 1.15 % | 1.15 % |
| NORDNET LIVSFORSIKRI | 76 154 | 1.07 % | 1.07 % |
| TOPDANMARK LIVSFORSI BNY MELLON SA/NV | 69 501 | 0.98 % | 0.98 % |
| **Total** | **4 208 446** | **59.3 %** | **59.3 %** |
| **Other owners (ownership <0.98%)** | **2 886 284** | **40.7 %** | **40.7 %** |
| **Total number of shares at 08 April 2016** | **7 094 730** | **100 %** | **100 %** |

# 23 Post-employment benefits

**Defined contribution plan**
The Group only has defined contribution plans for its employees. Pension costs related to the company's defined contribution plan amounts to NOK 1 million for 2015. For 2014 the corresponding costs were NOK 0 million.

The Norwegian Companies are obliged to have occupational pension in accordance with the Norwegian act related to mandatory occupational pension. All companies meet the Norwegian requirements for mandatory occupational pension ("obligatorisk tjenestepensjon").

# 24 Asset retirement obligations

Specification of asset retirement obligations

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Balance on 1 January | 612 | 327 |
| Provisions made during the year | 157 | 166 |
| Accreation expense - present value calculation | 38 | 34 |
| Reclassified to liabilities held for sale (see note 21) | (12) | |
| Reversed provision from disposal of assets | (77) | |
| Currency translation | 118 | 85 |
| **Provision made for asset retirement obligations on 31 December** | **837** | **612** |

The Asset Retirement Obligation as at 31 December 2015 is NOK 5 million on Lulita, 251 million on Huntington (discontinued operation) and NOK 581 on Nini and Cecilie (discontinued operations). The accretion expense for the year is NOK 1 million for Lulita (continued operation) and NOK 37 million on discontinued operations. The abandonment cost is capped at DKK 445 million plus interest equalising the amount on restricted cash account.

Maturity in table below will depend on a number of factors including development in the oil price. Maturity therefore is uncertain. Abandonment cost for the Huntington field (NOK 251 million) is included though the company (Noreco Oil (UK) Ltd) will not be able to raise financing and hence meet the payment obligations. Please refer to note 6 and the Directors Report for further information

**Expected maturity**

| | 2015 | 2014 |
|---|---|---|
| 1-5 years | 256 | 8 |
| 6-10 years | 581 | 176 |
| over 10 years | - | 428 |
| **Provision made for asset retirement obligations on 31 December** | **837** | **612** |

# 25 Borrowings

## 25.1 Summary of borrowings

| (NOK million) | | 2015 | | 2014 | |
|---|---|---|---|---|---|
| Non-current debt | Note | Principal amount | Book value | Principal amount | Book value |
| NOR06 bond loan, amended and restated | 25.3 | 477 | 367 | | |
| NOR10 bond loan, amended and restated | 25.3 | 156 | 134 | | |
| **Total non-current bonds** | | **634** | **501** | | |

| Current debt | Note | Principal amount | Book value | Principal amount | Book value |
|---|---|---|---|---|---|
| Bond loan NOR06 | 25.3 | | | 588 | 588 |
| Bond loan NOR10 1st Lien | 25.3 | | | 1 372 | 1 372 |
| Bond Loan NOR11 2nd Lien | 25.3 | | | 722 | 722 |
| Bond Loan NOR12 Convertible | 25.3 | | | 369 | 369 |
| Amended and restated NOR06 (2) | | 160 | 160 | | |
| Amended and restated NOR10 (3) | | 200 | 170 | | |
| **Total current bonds (1)** | | **361** | **331** | **3 051** | **3 051** |
| Exploration loan | 25.4 | 110 | 110 | 284 | 284 |
| **Total current other interest bearing debt** | | **110** | **110** | **284** | **284** |
| **Total borrowings** | | **1 104** | **942** | **3 335** | **3 335** |

1) At 31 December 2014 all outstanding bond loans and the exploration loan facility, which carried cross default provisions, were defaulted on and the creditors had the right to call the entire principal amounts and accured interests for payment. As a resultat, the outstanding bonds and exploration loan were reclassified to current liabilities and the remaining difference between principal amounts and book values of NOK 510 million were recognised as financial expense in 2014. See note 14.
2) principal amount equal to book value due to reapyment at par.
3) An buy-offer was made at 85% of par, approximately NOK 200 million accepted the buy-back deal.

## 25.2 The Refinancing and subsequent measurement

In October 2014, Noreco initiated a comprehensive financial restructuring due to a material decrease in the company's debt servicing ability. The restructuring process was triggered by weaker production at Huntington in 2014 than previously anticipated as well as lower production projections for 2015 and onwards. Through the fourth quarter, Noreco's financial outlook continued to deteriorate as a consequence of the significant and continued drop in oil prices, increases in projected operating costs and accelerated retention of cash to cover future abandonment costs. These adverse circumstances led to significant write-downs, which in turn led to a situation where the equity was lost by the end of 2014. On 15 December 2014 Noreco informed that it would not be able to make payments for bond loan interests that were due on 9 December 2014. As a consequence of the non-payment, all outstanding bond loans and the exploration loan facility, which carried cross default provisions, were defaulted on and the creditors had the right to call the entire principal amounts and accrued interests for payment.

Based on feedback from the financial stakeholders on the Board's first restructuring proposal presented on 15 December 2014, which entailed a full bond debt to equity conversion, the board resolved to finalise and present a revised restructuring proposal on 4 February 2015. The revised restructuring proposal entailed that Noreco would be converting NOK 1 979 million of bond debt to equity with NOK 1 218 million of bond debt remaining on amended terms, including amended maturities, with possible payment-in-kind interest and no fixed amortisations except final maturity in three years, but with "cash sweep" if cash should become available. The bond loan NOR06 would change borrower to Noreco Norway AS without any recourse to the parent company or other parts of the group. In addition Nordic Trustee, on behalf of the bondholders of NOR06, was given an option to purchase all outstanding shares of, and any intercompany claims on, Noreco Norway AS for NOK 1. If the purchase option is exercised, then the Noreco group can cancel the option for a consideration of NOK 30 million, or by exercising the call option on the bond loan. The three other bond loans NOR10, NOR11 and NOR12 were converted into an amended and restated NOK 600 million senior secured bond loan of Noreco. As part of the renegotiated NOR10 bond loan agreement, Noreco ASA and its subsidiaries (except for Noreco Norway) are required to pledge parts of- or all of their unrestricted cash in favour of NOR10. Following the proposed conversion the holders of the converted bonds would own 92 per cent of the outstanding shares in the company, and would in this way dilute the existing share capital to 8 per cent of the total.

On 2 March 2015, the bondholders' meeting in NOR06, NOR10, NOR11 and NOR12 resolved to approve the company's proposal with close to unanimous support. On 3 March 2015, the general meeting also resolved to approve the proposal, also with close to unanimous support. The financial restructuring was completed on 24 March 2015, through issuance of new shares and execution of amended bond agreements, after which the amended bond loans were admitted to trading at Oslo Stock Exchange. Following a temporary period on N-OTC, the new shares were admitted to trading at Oslo Stock Exchange on 13 May 2015.

In the second quarter 2015 an agreement between Noreco and CapeOmega was reached regarding the sale of Norecos 15% interest in Oselvar (PL274 and PL274 CS) for a total consideration of NOK 201 million. The sale received the necessary approval from the Norwegian authorities in Q4, and a repayment on NOR06 subsequently took place in Q1 2016. After the repayment the principal amout is be approximately NOK 482 million.
In the third quarter 2015 Noreco repaid approx. NOK 243 million at par on NOR10.

In Q4 it was announced that Noreco Energy Company ASA offered to buy-back NOR10 bonds at 85% of par value. In late December 2015 it was confirmed that a buy back of a principal amount of approximately NOK 200 million of NOR10 bonds at the fixed price of 85% of par value was to take place. The buy-back will take place in the first quarter 2016. Following the buy-back the principal amount will be approximately NOK 156 million.

**Extinguishment of debt and calculation of gain**
As described above, there were substantial modifications of the terms in the new bond loans. Thus, the refinancing in first quarter 2015 was accounted for as an extinguishment and the old bond loans were derecognised, including any remaining capitalised costs (none at 31 December 2014). Transaction costs incurred in the process of renegotiating the bond loans were reflected in the gain/loss calculation. The new bond loans have been recognised at fair value at initial recognition and the company opted to use the fair value option for subsequent measurement.

| (NOK million) | YTD 2015 |
|---|---|
| Book value old bond loans at the time of extinguishment | 3 196 |
| Fair value amended and restated bond loans and new equity at the time of initial recognition | (930) |
| Transaction costs | (90) |
| **Gain on extinguishment of debt** | **2 176** |

**Measurement at initial recognition**
Borrowings were initially recognised at fair value, net of transaction costs incurred. The following fair values were observed and were applied for the amended and restated bond loans at initial recognition:

| | |
|---|---|
| Amended and restated NOR06 | 55 % |
| Amended and restated NOR10 | 56 % |

**Subsequent measurement**
The subsequent measurement depends on which category the borrowings have been classified into. The categories applicable for Noreco are either financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost using the effective interest method. Noreco has designated the amended and restated bond loans at fair value through profit or loss. The following fair values were applied for the amended and restated bond loans at the end of fourth quarter:

| | |
|---|---|
| Amended and restated NOR06 | 82.7 % |
| Amended and restated NOR10 | 85.3 % |

It is assumed that the change in observed price in it's entirety is attributable to change in own credit risk.

# 25.3 Details on borrowing

**Details on borrowings outstanding on 31 December 2015**

**Amended and restated NOR06**
The issuer is Noreco Norway AS (change of debtor from Norwegian Energy Company ASA). The bond was entered into in March 2015 with a face value of NOK 618 million (principal amount including accrued, but unpaid interest and default interest until 5 March 2015 (assumed settlement date)) and a final maturity date in March 2018 (3 years after the original issue). The bond holds a fixed interest rate of 6.5 % with semi annually payments only if available cash on the proceeds accounts, otherwise payment-in-kind (PIK).

Noreco has a call option any time at par value (included accrued but unpaid interests and accumulated PIK interest). There are standard event of default provisions, however no cross default to other group companies. Nordic Trustee on behalf of the NOR06 bondholders have been granted an option ("Purchase option") to acquire all the shares (100 %) and intra-group loans to Noreco Norway AS for NOK 1 at any time (subject to release of Noreco ASA's parent company guarantee for Norwegian operations). However, Noreco ASA shall always have the right to repurchase the purchase option at any time (all or nothing) at an amount of NOK 30 million or cancel the purchase option by exercising the call option for the entire bond (in each case also in response to the purchase option being exercised). Acquisition of the shares constitutes a change of control and is dependent on authority approval.

**Amended and restated NOR10**
The bond was entered into in March 2015, with a face value of NOK 600 million with a final maturity date in March 2018. The loan holds a fixed interest rate of 6.5 % with semi annually payments only if available cash on the proceeds account (and subject always to the company having a lawful level of equity), otherwise payment-in-kind (PIK) by increasing par value.

Noreco has a call option at any time at par value (included accrued but unpaid interests and accumulated PIK interest). There are standard event of default provisions, however Noreco Norway AS shall not be included in the cross default.

**Exploration loan Noreco Norway AS**
Noreco Norway AS has an exploration loan. The basis for utilisation of the exploration loan facility is 70 percent of exploration losses which are entitled to 78 percent tax refund from the Norwegian tax authorities. The loan has a cross default clause, which is limited to borrowings within Noreco Norway. As of 31 December 2015 the amount outstanding was NOK 110 million. The loan holds interest rate of NIBOR 3 months plus 2.5% margin with quarterly interest payments. A full repayment of the loan is due in December the year after drawdown.

Change of control of Noreco and delisting leads to mandatory repayment. Cross default clauses exist.

**Details on borrowings outstanding on 31 December 2014**

**NOR06 1st lien Secured Oselvar Bond**
The bond was entered into in December 2013 with at face value of NOK 600 million and a final maturity date of 9 December 2017 (4 years after the original issue date). The bond held a fixed interest rate of 6.5% with semi annual interest payments. The first interest payment was due on 9 June 2014.

Upon the occurence of a change of control event, the bondholders had the right to require the issuer to redeem its bonds (a "put option") at a price of 101 % of par value plus accrued interest.

Noreco could redeem the bonds in whole or in parts ("call option") at 105 % in 2014, 103.5 % in 2015, 102.5 % in 2016 and 101 % in 2017. Cross default clauses existed.

The loan was listed on the Oslo Stock Exchange with the ticker NOR06.

In March 2015, NOR06 was replaced by an amended and restated bond loan in connection with the refinancing process. The issuer is now Noreco Norway AS (change of debtor from Norwegian Energy Company ASA). The ticker will remain NOR06. Please see below for further details.

**NOR10 1st lien Secured Huntington and Denmark Bond**
The bond was entered into in December 2013 with at face value of NOK 1 399 million and a final maturity date of 9 December 2016 (3 years after the original issue date). The bond holds a fixed interest rate of 6.0% with semi annual interest payments. The first interest payment is due on 9 June 2014.

Upon the occurence of a change of control event, the bondholders had the right to require the issuer to redeem its bonds (a "put option") at a price of 101% of par value plus accrued interest.

Noreco could redeem the bonds in whole or in parts ("call option") at 105 % in 2014, 103 % in 2015 and 101 % in 2016. Cross default clauses existed.

The loan was listed on the Oslo Stock Exchange with the ticker NOR10.

In March 2015, NOR10 was partly converted to equity and partly replaced with an amended and restated bond loan, NOR10 in connection with the refinancing process. The bond loan will continue with ticker NOR10. Please see below for further details.

**NOR11 2nd Lien Bond (Huntington and Denmark)**
The bond was entered into in December 2013 with a face value of NOK 736 million and a final maturity date of 9 June 2019 (5.5 years after the original issue date and reduced from the initially agreed maturity date of 9 December 2020 as commented on below). The bond held a fixed interest rate of 6.75% with semi annual interest payments. The first interest payment was due on 9 June 2014.

Upon the occurence of a change of control event, the bondholders have the right to require the issuer to redeem its bonds (a "put option") at a price of 101% of par value plus accrued interest.

Noreco could redeem the bonds in whole or in parts ("call option") at 105% until 2016, 104% in 2017, 103% in 2018, 102% in 2019. Cross default clauses existed.

The loan was listed on the Oslo Stock Exchange with the ticker NOR11.

In March 2015, NOR11 was partly converted to equity and partly replaced with an amended and restated bond loan, NOR10 in connection with the refinancing process. Please see below for further details.

**NOR12 Unsecured Convertible Bond**
The bond was entered into in December 2013 with a face value of NOK 367 million and a final maturity date of 9 December 2018 (5 years after the original issue date). The bond held a fixed interest rate of 4.0% with semi annual interest payments. The first interest payment was due on 9 June 2014. Such interest payments to be paid in kind or cash interest at the Company's discretion. Covertible bonds issued and paid in kind interest should have the same rights as the original convertible bonds. If interests was paid in kind the interest amount would be added to the loan balance.

Each bondholder could exercised one or more of the conversion rights at a price of NOK 0.30 per common share at any time during the exercise period. The exercise period meant the period commencing on the issue date and ending on 9 December 2018 or, in the event of a new board resolution persuant to an extended authorisation by the Issuer's general meeting, to (but not including) the maturity date.

Upon the occurence of a change of control event, the bondholders have the right to require the issuer to redeem its bonds (a "put option") at a price of 101% of par value plus accrued interest or convert its bonds at a convertion price per common share of the issuer in accordance with a formula defined in the bond agreement.

At any time three (3) years after the issue date, Noreco shall have the right (issuer soft call option") to redeem all or some of the bonds at 100% in 2017 and 2018, subject to 120% parity check based on 20/30 last trading days. Cross default clauses exist.

The loan was listed on the Oslo Stock Exchange with the ticker NOR12.

In March 2015, NOR12 was partly converted to equity and partly replaced with an amended and restated bond loan, NOR10 in connection with the refinancing process. Please see below for further details.

**Exploration loan Noreco Norway AS**
The exploration loan was issued on 19 March 2013 with a principal amount of NOK 1 240 million. Amount outstanding at 31 December 2013 was NOK 284 million. The loan holds interest rate of NIBOR 3 months plus 2.5% margin with quarterly interest payments. A full repayment of the loan is due in December the year after drawdown.

Change of control of Noreco and delisting leads to mandatory repayment. Cross default clauses exist.

# 25.4 Covenants

**Covenants relating to interest bearing debt after the refinancing in 2015**
As stated earlier, the restructuring which included that Noreco converted NOK 1 979 million of bond debt to equity with NOK 1 218 million of bond debt remaining on amended terms, took place in march 2015. The amended and restated bond loan NOR06 with a face value of NOK 618 million, changed borrower to Noreco Norway AS without any recourse to the parent company or other parts of the group. The three other bond loans NOR 10, NOR 11 and NOR 12 were converted into an amended and restated bond loan NOR10, with a face value of NOK 600 million.

All the outstanding bonds at 31 December 2015 were subject to the same covenants. The covenants were in line with what is considered customary in the Norwegian high yield bond market.

Customary events of default exist for the exploration loan, including material adverse change, and in addition if the borrower fails to claim refund that it is entitled to under the Petroleum Tax Act relating to exploration costs financed under the agreement.

As of year end 2015 Noreco is in compliance.

# 25.5 Payment structure

**Payment structure loans after refinancing (NOK million):**

| Year | Amended and restated NOR06 | Amended and restated NOR10 | Exploration loan | Total |
|---|---|---|---|---|
| 2016 | - | - | 110 | 110 |
| 2017 | - | - | - | - |
| 2018 | 637 | 356 | - | 993 |
| **Total** | **637** | **356** | **110** | **1 103** |

**Interest payments after refinancing (NOK million):**

| Year | Amended and restated NOR06 | Amended and restated NOR10 | Exploration loan | Total |
|---|---|---|---|---|
| Interest rate | 6.50 % | 6.50 % | 3.98 % | |
| 2016 | 41 | 23 | 4 | 68 |
| 2017 | 41 | 23 | | 64 |
| 2018 | 21 | 12 | | 33 |
| **Total** | **103** | **58** | | **165** |

As described in note 24.2 and 24.3, the restructuring entailed that Noreco converted NOK 1 979 million of bond debt to equity with NOK 1 218 billion of bond debt remaining on amended terms, including amended maturities, with possible payment-in-kind interest and no fixed amoritsations except final maturity in three years, but with "cash sweep" if cash should become available. This implies that the actual repayment structure of the amended and restated NOR06 and NOR10 bond loans may differ from the illustration as set out above.

**Payment structure loans before refinancing (NOK million):**

| Year | NOR06 | NOR10 | NOR11 | NOR12 | Exploration loan | Total |
|---|---|---|---|---|---|---|
| 2014 | | | | | | |
| 2015 | 588 | 1 372 | 722 | 369 | 284 | 3 335 |
| 2016 | | | | | | |
| 2017 | | | | | | |
| 2018 | | | | | | |
| 2019 | | | | | | |
| **Total** | **588** | **1 372** | **722** | **369** | **284** | **3 335** |

**Interest payments before refinancing (NOK million):**

| Year | NOR06 | NOR10 | NOR11 | NOR12 | Exploration loan [1] | Total 2014 |
|---|---|---|---|---|---|---|
| Interest rate | 6.50 % | 6.00 % | 6.75 % | 4.00 % | 3.98 % | |
| 2014 | | | | | | |
| 2015 | 23 | 50 | 30 | 9 | 1 | 113 |
| 2016 | | | | | | |
| 2017 | | | | | | |

1) Interest rate terms are NIBOR 3 months plus 2.5% margin. NIBOR 3 months of 1.48 % has been used in the calculation.

The interest amounts include incurred interest for all debt as of 31 December 2014. All outstanding bond loans and the exploration loan facility, which carried cross default provisions, were defaulted on as of 31 December 2014. The creditors therefore had the right to call the entire principal amounts and accrued interests for payment. All outstanding bond and exploration loans were reclassified to current liabilities as of 31 December 2014.

## 25.6 Assets pledged as security for interest bearing debt

**Specification of assets pledged as securities:**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| **Collateralised debt (net book value)** | | |
| Bond loans (current and non current part, ref. note 24.1) | 832 | 2 682 |
| Exploration loan (ref. note 24.1) | 110 | 284 |
| Total collateralised debt | 942 | 2 966 |
| **Capitalised value in the consolidated accounts of assets pledged as securities** | | |
| Licence and capitalised exploration expenditures | - | 743 |
| Property, plant and equipment | 2 | 3 087 |
| Receivable | 521 | - |
| Tax receivable | 470 | 378 |
| Cash at bank | 630 | - |
| Total capitalised value | 1 623 | 4 208 |

**Specification of assets pledged as securities per bond/loan:**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Bond loan NOR10 | | |
| Licence and capitalised exploration expenditures | - | 60 |
| Property, plant and equipment | 2 | 427 |
| Receivable | 521 | - |
| Cash at bank | 352 | - |
| Total | 875 | 487 |
| **Bond loan NOR06** | | |
| Shares in subsidiaries | | |
| Property, plant and equipment | - | |
| Tax receivable | 351 | - |
| Cash at bank | 278 | - |
| Total | 629 | - |
| **Exploration loan [1]** | | |
| Licence and capitalised exploration expenditures | - | 259 |
| Tax receivable | 119 | - |
| Total | 119 | 259 |

1) The exploration loan is secured with pledge in the tax refund balance related to Norwegian exploration activity and all Norwegian exploration licences.

# 26 Trade payables and other payables

| (NOK million) | 2015 | 2014 |
|---|---|---|
| Trade payable (*) | 3 | 17 |
| Liabilities to operators relating to joint venture licences (*) | 101 | 224 |
| Overlift of oil (*) | - | 4 |
| Accrued interest (*) | 17 | 114 |
| Employee bonus/salary accruals | 0 | 11 |
| Public duties payable (*) | 1 | 8 |
| Other current liabilities (*) | 39 | 79 |
| **Total trade payable and other payables** | **162** | **458** |

*) See note 20 for fair value disclosures

**Trade and other payables held in currency**

| (NOK million) | 2015 | 2014 |
|---|---|---|
| NOK | 31 | 174 |
| DKK | 47 | 196 |
| USD | 8 | 18 |
| GBP | 76 | 71 |
| EUR | - | 0 |
| **Total** | **162** | **458** |

**Ageing analysis of trade payables and other current liabilities on 31 December 2015**

| | | | Due | | | | |
|---|---|---|---|---|---|---|---|
| (NOK million) | Total | Not past due | > 30 days | 30-60 days | 61-90 days | 91-120 days | > 120 days |
| Trade payable | 3 | 1 | 2 | 0 | | | |
| Liabilities to operators relating to joint venture licences | 101 | 26 | | 75 | | | |
| Overlift of oil | 0 | 0 | | | | | |
| Accrued interest | 17 | 17 | | | | | |
| Employee bonus/salary accruals | 0 | 0 | | | | | |
| Public duties payable | 1 | 1 | 0 | 0 | | | |
| Other current liabilities | 39 | 38 | 1 | | | | |
| **Total** | **162** | **82** | **4** | **76** | - | - | - |

**Ageing analysis of trade payables and other current liabilities on 31 December 2014**

| | | | Due | | | | |
|---|---|---|---|---|---|---|---|
| (NOK million) | Total | Not past due | > 30 days | 30-60 days | 61-90 days | 91-120 days | > 120 days |
| Trade payable | 17 | 17 | 0 | 1 | 0 | | 1 |
| Liabilities to operators relating to joint venture licences | 224 | 224 | | | | | |
| Overlift of oil | 4 | 4 | | | | | |
| Accrued interest | 114 | 114 | | | | | |
| Employee bonus/salary accruals | 11 | 11 | | | | | |
| Public duties payable | 8 | 8 | 0 | | | | |
| Other current liabilities | 79 | 76 | 2 | | | | |
| **Total** | **458** | **455** | **3** | **1** | **0** | - | **1** |

# 27 Sale of assets and assets and liabilities held for sale

Noreco Norway has entered into an agreement with CapeOmega for CapeOmega to take over Noreco Norway's share in the oil production field Enoch. The conclusion of the agreement was as of year end pending government approval, and was subsequently granted in first quarter 2016.

Noreco Norway entered into an agreement with Djerv Energi AS for Djerv Energi AS to take over Noreco Norway's E&P business includ- ing its operatorships, its employment contracts, other contracts related to the operation whereby Noreco Norway will have only its tax bal- ances, loans and cash balances left. The conclusion did not obtain bondholder approval and instead a transaction with Detnor was entered into on March 2 2016. The transaction obtained bondholder approval on March 16, 2016, but is still pending government approval. Refer to note 5 and 34 for further information.

Both transactions imply that the assets and liabilities in the deals have accordingly been reclassified as held for sale and impaired since asset classified as held for sale shall be recorded at the lower of carrying amount and fair value less cost to sell.

**Specification of assets held for sale:**

| (NOK million) | 2015 |
|---|---|
| Trade receivables and other current assets | (12) |
| **Total assets held for sale** | **12** |

**Specification of liabilities held for sale:**

| (NOK million) | |
|---|---|
| Asset retirement obligations | (12) |
| Net book value assets | |
| Trade payables and other current liabilities | (96) |
| **Total liabilities held for sale** | **107** |

# 28 Share-based compensation

The Group established an option program in January 2008. The purpose of the program was to establish a long-term incentive program for employees. During 2015 the options program was discontinued in Noreco Norway due to the possible deal with Djerv. All remaining options for the employees in Norway were cancelled and the remaining cost booked in Q4 2015. The options issued to Danish employees remain open active until future expiry dates.

| | |
|---|---|
| **Total share options and bonus shares outstanding as at 1 January 2014** | **12 805 387** |
| Share options granted in 2014 | 157 221 829 |
| Bonus shares granted in 2014 | 2 391 002 |
| Adjustment of options/bonus shares due to reverse split 29 September 2014 | -153 103 806 |
| Share options forfeited in 2014 | -17 619 926 |
| Bonus shares forfeited in 2014 | -241 930 |
| **Outstanding at 31 December 2014** | **1 452 226** |
| | |
| Share options granted in 2015 | - |
| Bonus shares granted in 2015 | - |
| Adjustment of options/bonus shares due to reverse split 15 May 2015 | -1 438 030 |
| Share options and bonus shares forfeited by employees due to the discontinuation of the options program | 13 508 |
| **Outstanding at 31 December 2015** | **1 018** |

| Grants | Exercise price | Outstanding share options and bonus shares at 31.12.2015 | Average remaining Contractual term | Weighted average exercise price |
|---|---|---|---|---|
| Share options programme 2013 | 41 100 | 40 | 2.18 | 41 100 |
| Share options programme 2014 | 1 600 | 978 | 3.32 | 1 600 |
| **Total** | | **1018** | **3.28** | **3 152** |

# 29 Guarantees

**Overview of issued guarantees on 31 December 2015**

The parent company of the Group Norwegian Energy Company ASA ("Noreco") has issued a parent company guarantee on behalf of its subsidiary Norwegian Energy Company UK Ltd and Noreco Oil (UK) Limited. Noreco guarantees that, if any sums become payable by Norwegian Energy Company UK Ltd or by Noreco Oil (UK) Limited to the UK Secretary of State under the terms of the license and the company does not repay those sums on first demand, Noreco shall pay to the UK Secretary of State on demand an amount equal to all such sums.

On 6 December 2007, Noreco issued a parent company guarantee to the Danish Ministry of Climate, Energy and Building on behalf of its subsidiary Noreco Oil Denmark A/S and Noreco Petroleum Denmark A/S. It is still in existence but only now relevant insofar as participation in Lulita is concerned

On 31 December 2012, Norwegian Energy Company ASA issued a parent company guarantee to the Norwegian state on behalf of its subsidiary Noreco Norway AS. Noreco guarantees that, if any sums become payable by Noreco Norway AS to the Norwegian State under the terms of the licenses and the company does not repay those sums on first demand, Norwegian Energy Company ASA shall pay to the Norwegian state on demand an amount equal to all such sums.

On 19 March 2013, the Norwegian Energy Company ASA issued a parent company guarantee in connection with establishment of a NOK 1,240 million exploration loan facility in Sparebank 1 - SR Bank. The debtor under the exploration loan is Noreco Norway AS.

On 6 December 2013, several subsidiaries in the Noreco group entered into Co-debtor guarantees related to the refinancing of outstanding bonds at that time. These are unconditional and irrevocable Norwegian law on-demand guarantee from the Guarantors securing the Obligor's obligations when they have become due under the Bond Agreement and any other Finance Document, including interest, cost and expenses, with payment by the Guarantor to be made within 10 Business Days of any demand, such Guarantees to be qualified as required by Danish law with respect to any Danish Guarantor. As part of the restructuring in March 2015, whereby the bond issues NOR10, NOR11 and NOR12 were, inter alia, restructured into the NOR10 bond issue, guarantees from Noreco Oil Denmark A/S, Noreco Petroleum Denmark A/S and Noreco Oil (UK) Ltd were continued as guarantees for the NOR10 bond issue.

# 30 Interest in jointly controlled assets

Interest in jointly controlled assets are included in the accounts by the gross method (partly consolidation), based on the equity.

**The Group holds the following licence equities on 31 December:**

| 2015 | | | | |
|---|---|---|---|---|
| Licence | Field | Country | Note [1] | Equity |
| PL006C | | Norway | SPA with Det Norske | 15.0 % |
| PL018DS | | Norway | SPA with Det Norske | 13.3 % |
| PL048D | Enoch[**] | Norway | Divested to CapeOmega in Q1 2016 | 21.8 % |
| PL492 | Gohta | Norway | SPA with Det Norske | 20.0 % |
| PL519 | | Norway | Relinquished Q1 2016 | 20.0 % |
| PL616 | | Norway | SPA with Det Norske | 20.0 % |
| PL701 [*] | | Norway | SPA with Det Norske | 40.0 % |
| PL744 S | | Norway | Relinquished Q1 2016 | 20.0 % |
| PL748 | | Norway | SPA with Det Norske | 20.0 % |
| PL755 | | Norway | Relinquished Q1 2016 | 20.0 % |
| PL761 [*] | | Norway | Relinquished Q1 2016 | 40.0 % |
| PL762 [*] | | Norway | SPA with Det Norske | 20.0 % |
| 1/90 | Lulita | Denmark | | 10.0 % |
| P1114 | Huntington | United Kingdom | Forfeited Q1 2016 | 20.0 % |

1) Please refer to note 34, since licenses that was part of the Djerv deal as of 31/12 are included in SPA with Detnor.
*) A Group company is the operator
**) The Enoch field located in the licence PL048D is a separate joint venture in which Noreco participates with 4.36 percent equity interest

In connection with the granting of new licences for exploration and production of oil and gas or when a PDO is approved, the participants are obliged to fulfill certain commitments. Such commitments could be to drill a number of wells, conduct seismic surveys or other commitments.

# 31 Contingencies and commitments

**Contingent assets**

*Zidane contingent payment*

As part of the disposal of PL435 (the Zidane discovery), Noreco is entitled to a contingent payment when a PDO for the Zidane 2 discovey is approved by authorities. The payment will be linked to the volumes submitted in the PDO. The contingent payment is not recognised in the accounts on 31 December 2015.

*Insurance payments - Loss of production income (LOPI) etc.*

The company continues to progress an insurance claim which is related to damage to the Siri platform that was discovered in 2009. The total claim exceeds NOK 3 billion, of which NOK 521 million (the USD amount is unchanged since 31 December 2014) is recognised as a non-current receivable at 31 December 2015. The book value of the receivable relates to costs incurred to prevent further damage, and loss of production income in 2009/2010. Based on technical documentation containing third party evaluations and the insurance agreements, the company remains firm that the claim is covered and at a minimum the booked amounts will be awarded and as such is not regarded as a contingent asset.

The court hearing has been scheduled for September 2016.

**Contingent liabilities**

*Nini/Cecilie abandoment guarantee*

Noreco was 2015 prevented from making payments for its share of production costs at the Nini and Cecilie fields, and was consequently in breach of the licence agreements. In accordance with the JOAs, the Nini and Cecilie licences were forfeitured in and the licences were taken over by the partners, whereas the debt remained with Noreco. Noreco and representatives from the bondholders initiated a dialogue with the operator and the partners in the licences in order to achieve an amicable solution which was reached during 2015 which entails that The Danish part of Noreco remains liable for the abandonment obligation, but the liability is in any and all circumstances limited to a maximum amount which equals the restricted cash account of DKK 445 million plus interest. Total provision made for asset retirement obligations reflects this.

*Huntington abandonement guarantee*

Following a notice of default in Noreco Oil UK,  announced in November 2015, it was announced in January 2016, that the other partners will exercise their rights to acquire Noreco's participating interest in the Huntington licence for no consideration. According to the JOA the liabilities of the company as at the date of default remains with the company.

**Other commitments**

At year end 2015 the Noreco group had the following commitments relating to exploration and production wells for the year 2016-2018:

| Commitments exploration wells | Number of wells | Amount (NOK million) |
|---|---|---|
| Commitments exploration wells [1] | - | |
| Total commitments exploration wells | - | - |
| **Commitments production wells** | | |
| Commitments production wells | - | - |
| Total commitments production wells | - | - |
| **Total commitments** | - | - |

1) The company has no committed wells for the period 2016-2018. It is expected that the partnership on PL492 Gohta will propose 2 appraisal wells in the period 2017-2018 and a shared well on Alta in 2017, estimated total cost for Noreco Norway of approximately NOK 192 million pretax. It is expected that the partnership on PL701 will propose 1 exploration well in 2017, estimated total cost for Noreco Norway of NOK approximately NOK 160 million pretax. The company is currently awaiting approval from the authorities on divestments of its partnershare in a number of its licenses, including PL492 Gohta and PL701. Should the approval be granted the new licenseholder will take over any future commitments from the company on these licenses.

An ongoing challenge of Noreco Oil Denmark A/S's taxable income for 2011, was announced in 2015, related to the sale of the Syd Arne field. Noreco initially challenged the reassesment and received updated ruling where Danish authorities are claiming payment of USD 4.2 million plus interest. Refer to note 35 for more information.

Apart from the issues discussed above, the Group is not involved in claims from public authorities, legal claims or arbitrations that could have a significant impact on the Company's financial position or results.

# 32 Operating leases

| Annual lease costs related to lease agreements accounted for as operating leases | 2015 | 2014 |
|---|---|---|
| Office [1] | 4 | 20 |
| Other [2] | 95 | 91 |

| Future minimum lease payments under non-cancellable lease agreements | 2015 | 2014 |
|---|---|---|
| 2015 | | 111 |
| 2016 | 0.1 | 118 |
| >2016 | 0.1 | 262 |
| 2018 | | 114 |
| >2018 | | 35 |
| Total | 0 | 491 |

1) Office includes rent at Badehusgata 37, which is part of the SPA with Djerv.
2) Other is mainly relating to operational assets associated with the Huntington licence. The FPSO (floating production unit) Voyager Spirit is contracted to the Huntington field in which Noreco has a share through its subsidiary Noreco Oil UK Ltd. The leasing contract is valid 5 years from 2013 (with options for extension). Due to the notice of default announced 2 November 2015, upon which E.ON UK E&P Limited and Premier Oil Plc, exercised their rights to acquire Noreco's participating interest in the Huntington licence, Noreco no longer has any future lease payments towards the FPSO.

# 33 Related party transactions

The Group did not have any transactions with any other related parties during 2015 or 2014. Director's fee paid to shareholders and remuneration to management is descibed in Note 9.

# 34 Supplementary oil and gas information (unaudited)

In 2014 the Group reported oil, gas and NGL reserves according to the guidelines given in the Stock Exchange circular no. 1/2013. The report was included as a separate separate section in the annual report in 2014. In 2015, due to the comprehensive financial restructuring caused by a material decrease in the company's debt servicing ability, Noreco is no longer active within the Oil and Gas business. Consequently following the transactions during 2015, when completed, Noreco will effectively no longer be an E&P company and will as such no longer have any reserves.

The reserves for Noreco's only field, Lulita, are shown below using the 2014 Reserves Report adjusted for the production in 2015.

**Total reserves as of 31.12.2015**

| 1P | Liquids (mill bbl) | Gas (bscf) | mill boe | Interest % | Net mill boe |
|---|---|---|---|---|---|
| Lulita | 0.39 | 1.82 | 0.71 | 10.00 | 0.07 |

| 2P | Liquids (mill bbl) | Gas (bscf) | mill boe | Interest % | Net mill boe |
|---|---|---|---|---|---|
| Lulita | 0.64 | 2.52 | 1.09 | 10.00 | 0.11 |

# 35 Subsequent events

On 11th of January Noreco announced that its UK subsidiary, Noreco Oil UK, had been served a formal notice by the license partners, E.ON UK E&P Limited and Premier Oil Plc, that they will exercise their rights to acquire Noreco's participating interest in the Huntington license for no consideration, in accordance with their rights under the JOA.

On 20th January it was reported that the challenge of Noreco Oil Denmark A/S's taxable income for 2011, which was announced in 2015, related to the sale of the Syd Arne field has been updated. Noreco initially challenged the reassesment and received in Q1 an updated ruling where Danish authorities are claiming payment of USD 4.2 million plus interest. Noreco contest the updated ruling.

On 21st of January an extraordinary general meeting was held. The general meeting passed the following resolution:
- Riulf Rustad was elected Chair of the Board, while Silje Auguston and Julien Balkany was elected as Board members
- Authorized the Board of Directors to grant options to buy or subscribe up to a total of 200,000 shares in the Company, which have been granted to Silje Augustson and Riulf Rustad. The strike price for the option was as set as the volume weighted average share price from the date of announcement up until the extraordinary general meeting. This implied a strike price of 42 NOK/share, which implies a value on the option programme of NOK 6.6 million.
- Authorized the Board of Directors to acquire treasury shares up to an aggregate nominal value of NOK 7,094,730 (10% of share capital). The purchase price for each share shall be minimum NOK 5 and maximum NOK 50, and it can only be used for fulfilment of the Company's option scheme, to strengthen the Company's equity or for funding of business opportunities. The authorization is valid until 21 January 2018.
- Authorized the Board of Directors to increase the share capital with up to NOK 14,189,460. The shareholders' pre-emptive rights pursuant to the Norwegian Public Limited Liability Companies Act section 10-14 may be set aside, and the authorisation can only be used for
- fulfilment of the Company's option scheme, to strengthen the Company's equity or for funding of business opportunities. The authorization is valid until 21 January 2018.

On 3rd of February Noreco announced that it did not achieve the necessary approval from the NOR06 bondholders for the Djerv-deal. It was nevertheless, by management, regarded as highly likely that an amended transaction would achieve the support from the bondholders and that the transaction will be completed with effective date 1 January 2016. Subsequently, on the 2nd of March, Noreco announced that its fully owned subsidiary Noreco Norway AS had entered into a Sale and Purchase Agreement with Det norske oljeselskap ASA ('Detnor') for the sale of its remaining exploration licences, employees and a cash balance of approximately NOK 45 million, to be adjusted for working capital. The effective date of the transaction is 1 January 2016. Subject to completion, the proposed transaction will constitute a ceasing of all of Noreco Norway's petroleum activities. The transaction entered into with Detnor was conditional on approval from the NOR06 bondholders, which was received on th 16th of March. Additionally, the proposed transaction is conditional upon approvals by the Ministry of Petroleum and Energy and the Ministry of Finance. The DetNor deal has a cash consideration of NOK 44,5 million as opposed to the Djerv deal of NOK 74 million.

In first quarter 2016 Noreco received the necessary governmental approval, for the agreement with CapeOmega, for Norecos share in the oil production field Enoch.

# AUDITOR'S REPORT

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To the Annual Shareholders' Meeting of Norwegian Energy Company ASA

INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

We have audited the accompanying financial statements of Norwegian Energy Company ASA, which comprise the financial statements of the parent company Norwegian Energy Company ASA and the consolidated financial statements of Norwegian Energy Company ASA and its subsidiaries. The parent company's financial statements comprise the balance sheet as at 31 December 2015, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway and for the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion on the separate financial statements*
In our opinion, the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norwegian Energy Company ASA as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

*Opinion on the consolidated financial statements*
In our opinion, the consolidated financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Norwegian Energy Company ASA and its subsidiaries as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the Board of Directors' report and the statements on Corporate Governance and Corporate Social Responsibility*
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

*Opinion on Accounting Registration and Documentation*
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 30 April 2016
KPMG AS

Mads Hermansen
*State Authorized Public Accountant*

# STATEMENT OF COMPLIANCE

# STATEMENT OF COMPLIANCE

## BOARD AND MANAGEMENT CONFIRMATION

Today, the board of directors and the chief executive officer reviewed and approved the board of directors' report and the Norwegian Energy Company ASA consolidated and separate annual financial statements as of 31 December 2015.

To the best of our knowledge, we confirm that:

- the Norwegian Energy Company ASA consolidated annual financial statements for 2015 have been prepared in accordance with IFRSs and IFRICs as adopted by the European Union (EU), and additional Norwegian disclosure requirements in the Norwegian Accounting Act, and that

- the financial statements for Norwegian Energy Company ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian Accounting Standards, and

- that the board of directors report for the group and the parent company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian Accounting Standard no 16, and

- that the information presented in the financial statements gives a true and fair view of the company's and the group's assets, liabilities, financial position and results for the period viewed in their entirety, and

- that the board of directors' report gives a true and fair view of the development, performance, financial position, principle risks and uncertainties of the company and the group.

*30 April 2016*

| | | |
|---|---|---|
| **Riulf Rustad (Sign)**<br>*Chair of the board* | **Silje Augustson (Sign)**<br>*Board member &*<br>*Group CEO* | **Julien Balkany (Sign)**<br>*Board member* |

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